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ABSTRACT

The Commission made an in depth study of the entire tax structure of Connecticut and developed a model for tax reform for the State that would allow for lessening of inequities for many classes of taxpayers and create a more favorable climate for industry to increase employment for Connecticut people. This volume (the second of three) contains four parts, all related to local level problems. A complete review of, and recommendations with respect to, the property tax are contained in the first part. School finance and a detailed proposal for local option equalization with projections through 1985 for each town are contained in the second part. Proposals for reform of the assessment system, including an estimate of revenues presently being lost through improper (and unlawful) underassessments are set forth in the third part. A recommendation for a Uniform Municipal Practices Act dealing with referendum requirements, town budgets, and town financial reporting is contained in the final section. (Author/JF)

State of Connecticut

THE REPORT OF THE GOVERNOR'S COMMISSION ON TAX REFORM

Submitted to Governor Thomas J. Meskill

Pursuant to Executive Order 13 of 1972

VOLUME II — LOCAL GOVERNMENT

Schools and Property

PART A — PROPERTY TAX REFORM

PART B — SCHOOL FINANCE REFORM

PART C — ASSESSMENT REFORM

PART D — MUNICIPAL FISCAL PROCEDURES

HARTFORD, CONNECTICUT
December 18, 1972

This Report Consists of the Following:

SUMMARY OF COMMISSION REPORT

VOLUME I STATE FINANCE
Revenues and Expenditures

VOLUME II LOCAL GOVERNMENT
Schools and Property

VOLUME III TAXPAYERS
People and Business

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(appointed by the Governor pursuant to Executive Order No. 13 of 1972)

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PART A

Property Tax Reform

Introduction

The property tax occupies a place in the state and local tax structure second to none in terms of revenue raised. It has been and continues to be the major revenue source of municipalities in Connecticut and throughout the United States. Recently the property tax has received increased national attention as municipalities have become more pressed for additional revenues to pay for their ever-increasing expenditures. Like all taxes, the property tax has been subject to charges of being regressive or progressive, or being too high. Also, some courts have held that the existing system of school finance by local property taxes is unconstitutional, and critics have charged that the property tax cannot continue as the major source of educational finance if we are to provide an equal opportunity for the education of Connecticut's children.

After study, the Commission concluded that the property tax is an appropriate vehicle for the financing of the expenditures of our towns and cities, including the financing of public education. The Commission did not find the property tax unduly regressive, in the context of total taxes paid by Connecticut citizens. But there are numerous inequities, including the way in which the property tax is administered. This Report considers and affirms the proposition that the property tax should be preserved and improved as an equitable means of raising a major portion of municipal revenue.

Part A of Volume II is devoted to an analysis of the property tax, its importance in our taxing system, the impact of the tax on our citizens, and the existing inequities found by the Commission. Alternate methods of assessing the property tax and of establishing property tax limits were explored. *The Commission concluded that the solution is a three-fold program to reform the existing property tax structure.*

In the Commission's view, the number one reform which is needed is the uniform administration and assessment of the property tax. This is discussed fully in Part C of this Volume.

The second major area of reform is in the method of financing public education in this State. The Commission considered the problems and concerns raised by recent court decisions and by the President's Commission on School Finance, the most critical being inequality of educational opportunity and the role of the property tax. These issues are discussed fully in Part B of this Volume, which sets forth a definitive program of school finance reform aimed at equalizing the educational opportunity afforded every Connecticut child without surrendering local autonomy.

The third area of reform deals with correction of certain other inequities. Here, Commissions recommendations include assistance for our cities, and for the elderly. These and other recommended improvements and reforms are discussed in the balance of Part A of this Volume.

The problems of the cities are discussed at page 33 and the specific relief which the Commission is recommending is set forth on page 34. *The Commission concluded the property tax is disproportionately burdensome in core cities which have unusually high municipal and educational costs ordinarily not found elsewhere.* The reliance on the property tax in the major cities pushes the property tax to levels which distort market behavior and investment decisions. There appears to be a wide range of "acceptability" of real property taxes, but **once property tax rates reach a critical point, the property tax becomes a major influence on location and investment decisions.**

The Commission concluded that major cities are forced to finance programs and offer services not needed elsewhere and that these cities desperately require financial assistance in order that property taxes may be reduced. *The Commission recommends the adoption of programs which will channel revenues to cities dealing with such problems.*

The State presently has two "block grant" programs which are well designed and which can provide effective assistance to cities. These programs channel unrestricted funds to localities with special problems. *The Commission recommends the appropriation of an additional $5 million to each program.*

Urban centers contain the greater part of this State's non-governmental tax-exempt property. *In addition to advocating charges for services rendered to tax-exempt properties, the Commission recommends that an annual $10 million fund be divided among cities with large concentrations of non-governmental tax-exempt property.*

The Commission also proposes that the existing program for grants in lieu of taxes for State-owned property be continued.

The Commission recommends the continuation of the present program of the personal property tax elimination. Under existing statutes, both manufacturers' and merchants' inventories are being phased out of the grand list. *The Commission believes the new purchases of manufacturers' machinery and equipment, furniture and fixtures, and all other personal property except motor vehicles, rolling stock of contractors, airplanes, and the personal property of public service companies should be exempt from the personal property tax.* The expectation is that the phase-out would be substantially completed in 10 years. *The Commission recommends the further elimination of personal property taxation* because: (1) there are inherent difficulties in valuing such property, and (2) the tax on manufacturers' personalty is non-competitive with other states and counterproductive to new investment.

The net fiscal impact on local government as a result of the Commission's program is to increase revenue available to local government by more than $100 million per year. (This does not include Federal Revenue Sharing which is additional.) Anticipating a growth of local revenue through 1974 consistent with the past, the Commission's program will provide over 10% more revenue than would have been received in that year, with no significant change in tax rates. Alternatively, if budget increases are held to the same percentage as the projected level of growth in the grand list, **enactment of the Commission program could result in a general roll-back of property tax rates throughout the State.**

The availability of new grand list value and the loss of old value through the new exemptions proposed **does not fall equally on each town.** Also, the State funded programs of city and school relief are designed to compensate for special conditions. For a review of the impact of special programs, see Part D of Volume I.

The Commission feels that this redistribution of resources is in the interest of the entire State, and its analysis indicates that **the initial impact will benefit most localities.** In the long run, all localities will benefit through improved services, lower property taxes, and a healthier economic climate in the State.

Findings and Recommendations

The Commission finds that:

1. Connecticut derives nearly 50% of all of its State and local own-source revenue from the property tax;

2. the spending rate of local governments has increased faster than the property tax base, and this has caused property tax rates to increase steadily;

3. the property tax has been the main source of revenue for local schools and other municipal services;

4. repeal of the property tax is not feasible since sufficient revenue cannot be produced from other sources at realistic rates.

The Commission recommends that:

A. the property tax should continue to be the appropriate main source of revenue for local schools and other municipal services.

The Commission finds that:

5. over 50% of the property taxes are levied against residential real property while about one-third of the total property taxes have their initial impact on business properties, and the remainder fall into various other categories;

6. Connecticut could legally adopt a system of differential classification to shift the impact of the property tax but the experiences of other states which have adopted systems of classification have not been successful.

The Commission recommends that:

B. the institution of a system of differential classification of property for purposes of property taxation is not suitable for Connecticut.

The Commission finds that:

7. alleged advantages of the site value tax have not been proven;

8. conversion to a system of site value taxation is not appropriate for the mature economy of Connecticut.

The Commission recommends that:

C. a shift to site value taxation is not desirable in this State.

The Commission finds that:

9. tax limits are best utilized when the State has alternative non-property tax sources.

The Commission recommends that:

D. enactment of (1) its recommendations relating to uniform assessment and administration of the property tax (Part C, Vol. II) and (2) its recommendations concerning municipal fiscal practices (Part D, Vol. II), will be more effective in controlling property tax rates than any imposed limitations.

The Commission finds that:

10. Section 12-129b of the Connecticut General Statutes which provides for property tax relief for elderly property tax owners is difficult to administer and does not grant relief to elderly renters.

The Commission recommends that:

E. a circuit breaker be adopted which would grant relief up to $500 for property owners and renters over 65 years of age, dependent on income, and which would gradually replace the existing Section 12-129b and related sections.

The Commission finds that:

11. the personal property tax is difficult to administer equitably;

12. the personal property tax falls in large part on businesses which is a deterrent to industrial investment in the State.

The Commission recommends that:

F. the tax on further acquisitions of personal property be eliminated except for motor vehicles, rolling stock of contractors, aircraft, and the personal property of public service companies. The tax revenues from existing personal property will decline over a ten-year period due to lower values being reported as the cost basis is lowered through depreciation.

G. the grants in lieu of taxes should be eliminated for both manufacturers' and merchants' inventories in 1974 simultaneously with the revaluation proposed in Part C of Volume II.

The Commission finds that:

13. the tax-exempt properties in the State amount to $3.5 billion or approximately 16% of the total assessed valuation;

14. the bulk of the tax-exempt properties are located in the more heavily populated areas.

The Commission recommends that:

H. no attempt should be made to tax institutions and other tax-exempt properties at the full tax rates imposed by towns and cities;

I. tax-exempt institutions should compensate the host towns for some of the services which they use;

J. service charges for the use of municipal services by tax-exempt institutions should be determined in each municipality and appropriate charges made;

K. Federal and State properties should be excluded from any such charges;

L. Section 12-19a of the Connecticut General Statutes should be fully funded;

M. a State fund be established and apportioned to qualifying towns of the State based on valuations of non-governmental tax-exempt property weighted by a factor which is the net grand list per square mile.

The Commission finds that:

15. the core cities of the State face problems not shared by other municipalities in Connecticut;

16. the block grant program (Sections 8-159a and 10-266k of the Connecticut General Statutes) has been an effective, but underfunded vehicle for aiding cities.

The Commission recommends that:

N. Sections 8-159a and 10-266k be retained and that the funding of those sections be expanded by $5 million each in FY 1974 and 1975 and $15 million each beginning in FY 1976.

The Commission finds that:

17. additional revenue made available to local governments frequently results in increased spending and the development of new programs which are not always required or essential to the welfare of the town.

The Commission recommends that:

O. the funds made available through the programs set forth here be used to roll back property taxes so as to encourage new investment and ease the burden on homeowners. Additionally, when the entire program for local government is ex-

amined as detailed in Parts A, B & C of this Volume II, additional revenues from the present tax structure will total more than $100 million. (See Summary below.) The Commission further recommends each town examine its fiscal programs in the light of these new revenues and wherever possible apply excess funds to the reduction of property taxes.

Summary of Changes Affecting Local Revenue

(in $ millions)

	FY 74	75	76	77
A. *Tax Reductions*				
1. Personal Property Tax: eliminate all except motor vehicles, rolling stock of contractors, and personal property of public service companies	– 7	–14	–21	–28
2. Loss of revenue from over-assessments	– 5	– 5	– 5	– 5
B. *Tax Increases*				
1. Building permits — $5 per $1,000 new construction	+ 2.5	+ 3.0	+ 3.5	+ 4.0
2. Service charges levied on tax-exempt institutions	+ 3.5	+ 4.0	+ 4.5	+ 5.0
3. Conveyance tax P.A. 152—5% recapture	+ 1.0	+ 1.5	+ 2.0	+ 2.5
C. *Additional Revenues from State Sources*				
1. Increased block grant programs	+10.	+10.	+30.	+30.
2. State grants to locals sharing a disproportionate burden of the cost of tax-exempt property	+10.	+10.	+10.	+10.
3. State grants in lieu of taxes on State property	+ 2.	+ 2.	+ 2.	+ 2.
4. School equalization funds	–	–	+20.	+20.
D. *Reduction in Revenue from State Sources*				
1. Inventory — grants in lieu of taxes	–	–	–20	–22
E. *Additional Revenue Available from Local Sources*				
1. Underassessed property	–	+50	+115	+120
2. Cost of assessment program	– 2	– 3	– 4	– 5
TOTAL GAINS FROM COMMISSION PROGRAM	+29.0	+80.5	+187.0	+193.5
TOTAL REDUCTIONS FROM COMMISSION PROGRAM	–14	– 22.0	–50.0	–60.0
NET INCREASE AVAILABLE FOR PROPERTY TAX REDUCTION OR NEW PROGRAMS	+15.0	+58.5	+137.0	+133.5

Magnitude and Importance of the Property Tax in Connecticut

Connecticut derives nearly 50% of all of its combined State and local own-source revenues and approximately 37% of its gross State and local revenue from all sources from the property tax assessed by its 169 towns and cities.[1]

If the property tax were repealed and Connecticut adopted an income tax in its place, Connecticut citizens would be required to pay an income tax equal to approximately 40% of their total Federal income tax payments.[2]

The above two statements demonstrate, in capsule form, the major role which the property tax plays in the tax structure of Connecticut. It is the major source of revenue for municipal expenditure and accounts for over 80% of total expenditures in Connecticut's towns and cities exclusive of capital outlay. Table A-1 shows the relationship between the State and local tax revenue over recent years. Table A-2 shows the property tax receipts in Connecticut from 1964-65 to 1971-72 as a percentage of the total expenditures of municipalities in the same periods.[3]

Connecticut is not unique in its dependence upon the property tax. The importance of the property tax nationwide was recently summarized by the Congressional Research Service of the Library of Congress:

> Though property tax revenue has increased steadily in absolute terms, it has declined as a proportion of State and local government revenue raised by the States within their individual boundaries, due to the introduction of the sales tax, the income tax, and other non-property taxes. It has declined even more as a proportion of total State and local government revenue due to the increasing number of Federal grants-in-aid. . . . [However] it still accounts for two-thirds of all general revenues raised by local governments from their own sources, and more than one-third of the total of all general revenues raised from their own sources by State and local governments.[4]

TABLE A-1: Total Connecticut State/Local Tax Bill, 1964-72

Year	Total	State Government		Local Government	
	($ millions)	($ millions)	%	($ millions)	%
1964-65	824.5	390.5	47	434.0	53
1965-66	907.7	439.9	48	467.7	52
1966-67	971.5	468.2	48	503.4	52
1967-68	1055.2	499.8	47	555.3	53
1968-69	1176.5	541.6	46	634.9	54
1969-70	1470.0	741.8	50	728.2	50
1970-71	1642.8	795.6	48	847.2	52
1971-72	1894.0	974.4	51	919.6	49

Source: U.S. Bureau of the Census, *Governmental Finances.*

Note: Local figures for 1972 are estimated.

TABLE A-2: Property Tax Receipts in Connecticut and Total Municipal Expenditures 1964-72

	(In $ millions) Property Tax Receipts	Municipal Expenditures (Excluding Capital Outlay)	Receipts as % of Expenditures
1964-65	430.5	505.6	85
1965-66	464.1	558.2	83
1966-67	500.3	628.5	80
1967-68	551.8	688.9	80
1968-69	630.0	770.9	82
1969-70	723.1	905.7	80
1970-71	841.6	1036.8	81
1971-72	952.8	1162.0	82

Sources: 1964 through 1971: *Governmental Finances*, U.S. Bureau of Census, indicated years. Taxes for 1972: Public Document 48, State Tax Dept., Grand Levy. Expenditures for 1972 are estimated.

In Connecticut, the property tax plays an even greater proportional role as a revenue source. In 1970, for instance, only three states (Massachusetts, New Hampshire, and New Jersey) raised a higher percentage of their state and local own-source revenues from the property tax than did Connecticut.[5]

When Federal grants are added as a revenue source, the percentage raised by the property tax in Connecticut drops to 37.8% in 1971. The relative decline in the importance of the property tax when Federal funds are included in post-war years is illustrated by the consistent reduction of that percentage since 1942 as shown in Table A-3.

In absolute terms, however, as the Congressional Research Service has noted for the nation,[4] Connecticut property tax collections have been growing steadily in volume. Table A-4 shows the

growth of the local net grand list, the average tax rate, and the grand levy in Connecticut between 1925 and 1971.

This dramatic increase in property tax collections has been the result of an increase in population, inflation, and the development of our land and economy. However, as can be seen by the increase in the grand list and the average tax rates, the spending rate of local governments in the State has increased even faster than the property tax base. This has put intense pressure on the tax, which is the only general revenue source available to Connecticut towns.

The property tax has been the main source of revenue for local schools and other municipal services. The Commission considered recommendations (a) to repeal the property tax and (b) to propose reforms in the property tax to remove its inequities and improve its administration. After review of the major complaints against the property tax and of the alternatives available to replace the revenues which the property tax now produces, **the Commission is of the opinion (1) that repeal of the property tax is not feasible from any point of view, especially since there is no comparable source of revenue to replace the existing tax other than an extremely high personal income tax; and (2) that the property tax should continue to be the appropriate main source of revenue for local schools and other municipal services.**

TABLE A-3: Percentage of State and Local General Revenue in Connecticut and U.S. Derived from the Property Tax, 1942-71

Year	Connecticut	U.S.
1942	50.5	43.5
1953	43.7	34.3
1957	41.5	33.7
1962	41.2	32.7
1967	38.4	28.6
1970	36.7	26.1
1971	37.8	25.3

Source: ACIR, *State-Local Finances* (1972), Table 12.

TABLE A-4: Local Net Grand List, Average Tax Rate, and Grand Levy in Connecticut, 1925-71

Year	Local New Grand List	Average Tax Rate*	Grand Levy
1925	$ 2,258,005,127	24.64	$ 55,628,031
1935	2,953,956,675	24.40	72,068,126
1945	3,441,510,741	25.14	86,511,960
1955	6,341,059,113	32.94	208,883,297
1965	12,006,463,434	39.18	470,405,700
1970	17,573,868,228	49.94	877,715,074
1971	18,673,388,661	51.13	952,849,237

Source: Connecticut Public Document 48, *Information Relative to the Assessment and Collection of Taxes* (1971), p. 7.

*In mills, on stated fractional assessment ratios.

The Burden of the Property Tax

Who Pays the Property Tax?

Generations of economists have debated the question of the impact of various taxes and combinations of taxes, in the hopes of providing a firm basis to predict what consequences will follow from the imposition, increase, or decrease of a particular tax. Obviously taxes have economic consequences. Equally obviously they are not clearly delineated. Some of the effects of the property tax seem reasonably clear, others are hard to define. The purpose of this section is to explore this subject as part of the Commission's analysis of the impact of the property tax.[6]

The property tax is paid by several classes of taxpayers, and generalities as to who bears the burden are difficult. The tax on undeveloped land can rarely be shifted from the owner. The tax on commercial or industrial property, on farm land, or other productive land use, can and frequently is shifted from the user to a consumer further down the line. The tax on residential property will fall on the owner if the occupant. However, if the residential property is rented, the tax may again be shifted to the consumer.

Without uniform assessment it is difficult to state with any certainty the amount of property tax being paid by classes of property. However, it is clear that business and industry do make a significant initial contribution to the revenues of Connecticut localities. The Advisory Commission on Intergovernmental Relations in its 1972 publication has estimated that in 1967, 32% of Connecticut's property taxes had their initial impact

on business property, while somewhat over 50% fell directly on residential real property.[7]

This estimate may be compared with the following proportions of business and residential property on the 1970 grand list of the State:[8]

	(Billions)		
Dwellings & Lots		$10.5	56.4%
Business			
Business & Industrial Buildings	$3.0		
Machinery, dams, etc.	1.0		
Business Furniture	.3		
Goods (merchants, manufacturers)	.9		
Total		5.2	28.0%
All Other		2.9	15.6%
Total Net Grand List		$18.6	100.0%

Is the Property Tax Regressive?

In tax literature the word *regressive* means that the tax bears disproportionately upon individuals of low income. The opposite, a *progressive* tax bears more heavily on people of higher income. A *proportional* tax would impose the same tax rate on all income groups. The regressivity of the tax on real property has been endlessly debated, and most tax economists believe that, as administered in most American jurisdictions in the recent past, the property tax is somewhat regressive.

Professor Netzer emphasizes that the property tax is used to finance services and benefits which are consumed most heavily by those in the lower income brackets. The point is, of course, that while the tax may be regressive, the expenditures definitely favor the poor.[9]

Regressivity is usually measured by current money income. Professor Netzer notes that the property tax becomes significantly less regressive than is commonly thought when measured by standards reflecting lifetime income and tax payments.

Another authority, while concluding from Connecticut data that the tax can be considered regressive, suggests that the reforms, like those the Commission is recommending in this Report, can eliminate many of the inequities caused by its regressive characteristics.[10]

Those who claim the property tax is progressive argue that roughly half of the population are renters who own relatively little property subject to the property tax and that, for a variety of reasons, the amount of tax shifted to them is fairly small. Under these circumstances, if property were properly and correctly assessed, and equitably taxed, the burden would fall more heavily on those with wealth than is commonly supposed.[11]

The property tax is one of many taxes paid by individuals, including the sales tax, the Federal income tax and others. The rise of property taxes has been overshadowed by the rise in Federal taxes especially, shown in Table A-5. As indicated, Federal tax collections have increased much faster than other taxes; by 1971, Federal tax payments represented almost 70% of the total Connecticut tax bill, compared to 30% in 1927.

TABLE A-5: Taxes Paid by Connecticut Residents by Level of Government, 1927-71

Level of Government	Tax Collections ($ millions)					
	1927	1937	1947	1957	1970	1971
Federal	36	75	646	1,402	3,501	3,882
State	25	47	88	244	796	848
Local	61	77	98	228	732	856
Total	122	199	832	1,874	5,029	5,586

Source: Connecticut Tax Study Commission, *Property Taxes in Connecticut* (1959), p. 4. 1970 data from Connecticut Public Document 48, *Information Relative to the Assessment and Collection of Taxes* (1970, p. 4). 1971 data from Public Document 48, p. 4.

Table A-6 shows the dollar amounts collected, and the percentage shares, of federal, state, local and all taxes combined for Connecticut residents by income group in 1967. A careful reading of those figures shows that — as explained in detail in Volume One, Part B — local (property) taxes are somewhat regressive, state taxes generally proportional and federal taxes progressive. The totals show how the dominant influence of Federal tax collections makes the combined impact of all taxes somewhat progressive across the income ranges shown. (And, as also noted earlier, Federal tax changes since 1967 are believed to have increased progressivity.)

Chart A-1 summarizes the above data in graphic form, showing that, when the large share of the tax bill represented by Federal taxes is included, the overall impact of the entire tax

CHART A-1
Federal, State, and Local Taxes in Connecticut by Income Group

(Based on 1967 Data)

Source: Connecticut Public Expenditure Council.

TABLE A-6: Connecticut Federal-State-Local Tax Burden by Income Group

Salary Group	1967 Federal Taxes Paid By Connecticut Taxpayers[1]	Federal Taxes as Per Cent of Income Spent By Each Income Group	1967 State Taxes Paid By Connecticut Taxpayers[2]	State Tax as Per Cent of Income By Income Group	1967 Local Taxes Paid By Connecticut Taxpayers[2]	Local Tax as Per Cent of Income By Income Group	Total of All Taxes Paid By Connecticut Taxpayers[3]	All Taxes as Per Cent of Income Spent By Each Income Group
	(Thousands)		(Thousands)		(Thousands)		(Thousands)	
Under - 2,000	$ 34,141	14.3	$ 12,638	5.30	$ 25,911	10.90	$ 72,770	30.5
2,000 - 3,000	47,262	20.4	10,770	4.65	23,351	10.10	81,383	35.1
3,000 - 4,000	68,031	24.4	11,968	4.30	15,596	5.60	95,595	34.4
4,000 - 5,000	78,760	24.6	14,412	4.50	21,131	6.60	114,303	35.7
5,000 - 6,000	100,038	25.8	17,564	4.54	16,841	4.36	134,443	34.7
6,000 - 7,500	194,304	25.7	31,218	4.14	32,813	4.36	258,335	34.2
7,500 - 10,000	457,069	24.5	70,705	3.80	78,146	4.20	605,920	32.5
10,000 - 15,000	773,938	27.9	120,967	4.36	127,472	4.60	1,022,377	36.9
15,000 and Over	1,218,479	35.8	101,958	3.00	101,957	3.00	1,422,394	41.9
	$2,972,022	29.02	$392,200	3.83	$443,298	4.33	$3,807,520	37.18

Source: Connecticut Public Expenditure Council, July, 1972.

Notes:

[1]Estimated from George Bishop, *Tax Burdens and Benefits of Government Expenditures by Income Class, 1961 & 1965*, Tax Foundation, Inc. (1967). Tax Foundation, *Allocating the Federal Tax Burden by State, 1967*.

[2]A. T. Eapen, *Incidence of Taxes and Expenditures of Connecticut State and Local Governments, Fiscal Year 1967* (1970).

[3]*Statistics of Income 1967*, IRS; Estimates made from George Bishop, *Tax Burdens and Benefits of Government Expenditures by Income Class, 1961 & 1965*, A. T. Eapen, *Incidence of Taxes and Expenditures of Connecticut State and Local Governments, Fiscal Year 1967* (1970), and Tax Foundation, *Allocating the Federal Tax Burden by State, 1967*.

system can be characterized as generally proportional with some amount of progressivity at the top and the very bottom income ranges.

Perhaps most important in drawing conclusions as to whether the property tax is regressive, and whether a significant shift away from the property tax should be recommended, is the combined incidence study, also presented in Volume I, Part B. Without repeating all the data, an analysis of state and local government taxes and expenditures together found that the combined impact was mildly progressive. *This progressivity of the total fiscal impact, weighed with some degree of regressivity in the tax structure alone, led the Commission to conclude that Connecticut is sufficiently close to the fiscal neutrality objective set forth as an overall and fundamental goal in Volume I, Part A, that drastic changes in the property tax are not justifiable on the grounds of regressivity alone.*

Are Property Taxes Too High?

Until adequate methods of measuring tax rates in various towns and cities in Connecticut are adopted, the answer to this question will not be forthcoming. Table A-7 is a compilation of tax rates for all the towns and cities in the State. It contains the percentage of the fair market value of the property of each town included in the grand list, (column 1); the year in which the town's property was last valued (column 2); the 1971 grand list (column 3); the 1972 mill rate (column 4); and the estimated grand list assuming 100% of market value (column 5). Based on limited sales ratios and certain other assumptions, the estimated grand list cannot be regarded as statistically conclusive. Column 6 is the estimated mill rate based upon the estimated 100% grand list in an attempt to arrive at a "true" tax rate comparable among all towns.

Table A-7 illustrates that towns of Connecticut differ markedly in their tax rates (from a low of 19.2 mills to a high of 91 mills). While columns 5 and 6 are based upon assumptions, nevertheless the Table indicates that towns depart from their stated intentions concerning percentage of assessment and that most of them assess property considerably under the percentage declared.

Table A-7 provides rough estimates of the true level of property taxes, in relation to the estimated market value of taxable property. "True" mill rates range from a low of less than

TABLE A-7: Tax Rates For All Connecticut Towns, 1971

Town	Assess. %	Last Reval. Year	1971 Net Grand List	1972 Mill Rate	Est. 100% Net Grand List	Est. Mill Rate
1 Andover	60	1962	$ 6,820,470	89.5	$ 15,459,732	39.48
2 Ansonia	65	1964	88,940,898	52.5	175,145,153	26.66
3 Ashford	50	1964	7,371,110	57.0	18,870,042	22.27
4 Avon	70	1968	79,098,965	44.25	126,558,344	27.66
5 Barkhamsted	50	1969	13,448,519	46.0	29,048,801	21.30
6 Beacon Falls	60	1950	12,484,782	63.0	22,472,608	35.00
7 Berlin	60	1966	115,094,780	45.0	230,189,560	22.50
8 Bethany	70	1968	28,026,957	49.5	44,843,131	30.94
9 Bethel	70	1968	75,705,700	55.0	121,129,120	34.37
10 Bethlehem	65	1969	13,523,334	44.0	22,469,539	26.48
11 Bloomfield	60	1969	163,792,936	45.2	294,827,285	25.11
12 Bolton	65	1970	20,004,189	52.0	32,006,702	32.50
13 Bozrah	60	1961	6,137,568	70.0	14,320,992	30.00
14 Branford	65	1970	179,366,940	35.0	286,987,104	21.88
15 Bridgeport	70	1963	609,390,192	76.4	1,149,135,790	42.52
16 Bridgewater	65	1970	11,542,700	41.0	19,178,640	24.68
17 Bristol	65	1965	246,883,912	64.4	470,978,540	33.76
18 Brookfield	50	1963	48,622,462	60.5	128,363,300	22.92
19 Brooklyn	50	1970	18,523,220	56.0	38,528,298	26.92
20 Burlington	65	1970	25,619,687	47.0	40,991,499	29.37
21 Canaan	50	1968	7,500,769	41.0	16,801,723	18.20
22 Canterbury	65	1970	11,283,090	42.0	18,052,944	26.25
23 Canton	60	1969	36,243,748	58.0	64,878,746	32.22

TABLE A-7: Tax Rates For All Connecticut Towns, 1971 (Continued)

	Town	Assess. %	Last Reval. Year	1971 Net Grand List	1972 Mill Rate	Est. 100 Net Grand List	Est. Mill Rate
21	Chaplin	65	1968	5,077,612	84.0	8,749,115	48.74
25	Cheshire	60	1969	123,203,167	48.0	221,763,900	26.67
26	Chester	65	1970	22,465,600	38.0	35,911,360	23.75
27	Clinton	65	1971	80,230,804	37.0	123,432,006	24.05
28	Colchester	70	1962	26,284,399	59.0	51,066,832	30.37
29	Colebrook	65	1970	7,480,204	43.8	11,968,326	27.38
30	Columbia	50	1962	12,192,012	63.0	33,162,273	23.16
31	Cornwall	50	1963	8,059,878	47.0	21,278,078	17.80
32	Coventry	65	1971	11,378,278	55.1	63,658,889	35.81
33	Cromwell	65	1968	43,568,820	41.0	75,072,128	23.79
34	Danbury	65	1966	287,191,860	55.34	530,751,203	29.98
35	Darien	70	1967	221,342,670	43.0	371,767,851	25.95
36	Deep River	65	1962	21,360,512	50.0	14,692,763	23.90
37	Derby	65	1963	51,891,462	64.5	105,379,581	31.76
38	Durham	60	1969	23,143,020	55.6	12,043,153	30.61
39	Eastford	67	1963	4,547,848	61.0	8,959,940	30.96
40	East Granby	60	1970	22,238,975	49.0	38,547,556	28.27
41	East Haddam	60	1972	23,171,808	46.0	52,529,565	20.29
42	East Hampton	65	1970	40,041,464	52.0	67,066,342	32.50
43	East Hartford	65	1971	500,437,437	42.5	769,906,826	27.62
44	East Haven	65	1971	121,234,028	62.5	186,513,889	40.62
45	East Lyme	65	1971	98,264,960	41.0	151,176,862	26.65
46	Easton	60	1961	39,024,670	52.0	91,057,564	22.29
47	East Windsor	60	1965	35,744,367	60.0	73,871,692	29.03
48	Ellington	65	1970	45,647,866	54.0	73,036,585	33.75
49	Enfield	60	1963	150,961,497	73.5	332,115,293	33.11
50	Essex	65	1969	43,063,250	30.75	71,551,246	18.51
51	Fairfield	70	1964	427,484,040	46.2	781,685,102	25.27
52	Farmington	65	1966	106,355,640	48.6	196,348,874	26.33
53	Franklin	65	1969	9,284,915	34.0	15,427,244	20.46
54	Glastonbury	70	1965	133,000,137	57.0	235,600,243	32.18
55	Goshen	65	1969	11,984,033	41.0	19,911,932	24.68
56	Granby	60	1967	28,352,454	62.3	54,814,744	32.22
57	Greenwich	90	1969	1,452,445,140	19.2	1,742,934,168	16.00
58	Griswold	65	1971	30,316,515	39.0	46,643,792	25.35
59	Groton	70	1971	272,890,784	54.1	389,853,977	37.87
60	Guilford	80	1964	96,117,281	46.0	153,787,699	28.75
61	Haddam	50	1971	67,309,697	25.5	134,619,394	12.75
62	Hamden	60	1967	318,091,239	58.5	614,982,195	30.26
63	Hampton	60	1970	5,354,786	53.0	9,281,629	30.57
64	Hartford	65	1961	946,026,745	81.4	2,037,596,067	37.79
65	Hartland	50	1961	5,437,487	60.0	15,224,964	21.43
66	Harwinton	65	1968	24,405,636	52.0	42,052,788	30.18
67	Hebron	65	1963	16,479,229	72.0	33,465,511	35.45
68	Kent	65	1971	20,758,965	30.0	31,936,896	19.50
69	Killingly	60	1965	51,543,627	49.0	106,523,496	23.71
70	Killingworth	65	1963	14,234,104	43.0	28,906,181	21.17
71	Lebanon	70	1971	26,259,314	35.5	37,513,306	24.85
72	Ledyard	70	1961	55,663,505	59.0	111,327,010	29.50

TABLE A-7: Tax Rates For All Connecticut Towns, 1971 (Continued)

	Town	Assess. %	Last Reval. Year	1971 Net Grand List	1972 Mill Rate	Est. 100% Net Grand List	Est. Mill Rate
73	Lisbon	70	1971	13,275,710	32.0	18,965,300	22.40
74	Litchfield	60	1970	55,822,979	44.0	96,759,830	25.38
75	Lyme	65	1970	17,938,890	24.0	27,262,221	15.00
76	Madison	60	1971	101,094,582	37.5	168,490,970	22.50
77	Manchester	65	1967	256,890,398	53.72	158,450,551	30.10
78	Mansfield	60	1971	54,116,348	53.5	90,693,913	32.10
79	Marlborough	70	1964	11,313,020	67.0	26,172,379	36.64
80	Meriden	60	1966	248,885,040	53.1	197,770,080	26.55
81	Middlebury	65	1971	62,249,634	29.0	95,768,668	18.85
82	Middlefield	65	1963	17,614,203	63.25	35,770,382	31.15
83	Middletown	65	1964	221,377,641	18.6	111,851,360	21.68
84	Milford	70	1969	452,786,400	43.34	698,584,731	28.09
85	Monroe	80	1969	90,682,810	42.6	122,421,791	31.56
86	Montville	60	1969	102,634,610	38.0	184,742,298	21.11
87	Morris	65	1970	14,312,875	44.0	18,100,600	27.50
88	Naugatuck	60	1965	113,961,960	18.75	235,519,521	23.59
89	New Britain	60	1956	272,797,355	77.35	727,459,613	29.01
90	New Canaan	60	1970	200,346,590	15.3	347,267,422	26.13
91	New Fairfield	65	1971	83,521,333	21.8	128,494,358	14.17
92	New Hartford	75	1970	28,709,250	50.0	41,341,320	34.72
93	New Haven	60	1964	635,204,641	84.3	1,355,103,233	39.52
94	Newington	65	1971	221,992,560	40.5	341,527,015	26.33
95	New London	65	1968	136,360,132	64.99	234,958,996	37.71
96	New Milford	65	1971	161,201,947	30.15	248,002,995	19.60
97	Newtown	100	1965	147,698,953	36.8	183,146,702	29.68
98	Norfolk	65	1970	14,607,770	45.0	23,372,432	28.13
99	North Branford	65	1969	65,306,474	53.5	108,509,218	32.22
100	North Canaan	70	1967	22,881,930	37.0	37,918,626	22.33
101	North Haven	60	1971	260,698,992	35.8	434,498,320	21.48
102	North Stonington	70	1970	20,434,837	44.0	30,360,329	29.62
103	Norwalk	65	1960	459,240,896	65.6	1,017,395,215	29.61
104	Norwich	65	1965	139,652,820	68.06	266,414,610	35.68
105	Old Lyme	60	1970	57,595,320	29.5	99,831,888	17.02
106	Old Saybrook	65	1970	104,524,133	30.5	167,238,612	19.06
107	Orange	60	1971	138,523,074	39.5	230,871,790	23.70
108	Oxford	65	1970	37,601,540	31.0	60,162,464	19.38
109	Plainfield	60	1971	42,996,717	49.0	71,661,195	29.40
110	Plainville	65	1971	113,924,960	44.3	175,269,168	28.80
111	Plymouth	60	1960	32,806,751	70.3	78,736,202	29.29
112	Pomfret	65	1971	12,073,447	36.0	18,582,226	23.40
113	Portland	65	1963	38,013,060	53.5	77,195,753	26.34
114	Preston	65	1967	16,493,114	53.0	29,433,866	29.70
115	Prospect	65	1971	34,169,488	39.0	52,568,443	25.35
116	Putnam	65	1968	40,556,835	27.0	69,882,547	15.67
117	Redding	60	1969	55,000,243	45.0	99,000,438	25.00
118	Ridgefield	50	1962	102,959,033	79.0	280,048,510	29.04
119	Rocky Hill	70	1970	89,117,170	41.7	132,402,653	28.07
120	Roxbury	70	1969	12,627,790	39.0	19,482,876	25.28
121	Salem	65	1962	7,874,320	50.0	16,475,500	23.90

TABLE A-7: Tax Rates For All Connecticut Towns, 1971 (Continued)

	Town	Assess. %	Last Reval. Year	1971 Net Grand List	1972 Mill Rate	Est. 100% Net Grand List	Est. Mill Rate
122	Salisbury	60	1970	15,888,340	22.8	79,530,790	13.15
123	Scotland	50	1969	2,797,171	94.0	6,042,511	13.52
124	Seymour	65	1965	54,018,335	52.0	103,050,362	27.26
125	Sharon	60	1970	17,573,161	46.0	30,160,666	26.54
126	Shelton	70	1970	215,692,004	32.25	320,456,691	21.71
127	Sherman	65	1970	17,485,660	30.5	27,977,056	19.06
128	Simsbury	65	1964	103,807,030	58.0	204,419,997	29.15
129	Somers	50	1965	21,751,429	68.0	53,950,984	27.42
130	Southbury	65	1971	86,017,030	28.0	132,333,892	18.20
131	Southington	65	1957	111,836,550	57.5	340,107,720	23.96
132	South Windsor	80	1965	111,733,115	58.25	173,186,371	37.58
133	Sprague	65	1970	16,553,128	38.0	27,503,659	22.87
134	Stafford	65	1971	48,458,670	40.0	74,551,800	26.00
135	Stamford	60	1971	1,162,828,277	48.0	1,938,047,128	28.80
136	Sterling	65	1967	5,665,316	61.0	10,110,110	34.18
137	Stonington	70	1961	86,161,170	42.0	172,322,340	21.00
138	Stratford	70	1963	341,776,420	46.8	619,375,199	21.63
139	Suffield	60	1970	64,037,980	45.75	110,999,166	26.39
140	Thomaston	65	1969	40,835,476	40.0	67,849,714	24.07
141	Thompson	60	1970	30,559,130	47.0	52,969,158	27.12
142	Tolland	65	1971	48,564,950	46.0	74,715,308	29.90
143	Torrington	65	1967	146,617,232	63.03	283,459,981	32.62
144	Trumbull	70	1970	309,458,402	34.4	459,766,768	23.15
145	Union	65	1970	2,500,345	42.0	4,000,552	26.21
146	Vernon	65	1971	151,168,578	51.0	232,567,143	33.15
147	Voluntown	60	1970	5,671,551	54.0	9,835,888	31.46
148	Wallingford	65	1971	244,324,084	44.0	375,883,206	28.60
149	Warren	50	1966	4,829,464	52.5	11,590,714	21.87
150	Washington	65	1970	28,929,520	37.0	46,287,232	23.12
151	Waterbury	65	1965	457,813,837	69.0	873,398,858	36.17
152	Waterford	60	1965	130,564,530	43.0	269,833,362	20.81
153	Watertown	65	1971	105,770,048	48.25	162,723,151	31.36
154	Westbrook	65	1971	51,289,830	23.0	78,907,431	14.95
155	West Hartford	55	1969	446,407,553	59.0	876,582,104	30.05
156	West Haven	80	1970	358,182,247	43.5	465,636,921	33.46
157	Weston	60	1968	77,289,950	49.1	144,274,513	26.30
158	Westport	60	1970	349,223,029	43.0	605,319,916	24.81
159	Wethersfield	65	1966	173,061,322	55.3	319,497,826	29.95
160	Willington	60	1966	13,441,251	62.0	26,882,502	31.00
161	Wilton	60	1969	152,891,010	51.0	275,203,818	28.33
162	Winchester	70	1964	45,755,903	59.0	83,667,937	32.27
163	Windham	60	1967	74,960,147	44.0	144,922,950	22.76
164	Windsor	65	1969	178,606,380	41.9	296,761,370	25.22
165	Windsor Locks	60	1969	115,047,106	40.75	207,084,791	22.64
166	Wolcott	65	1969	58,971,719	54.3	97,983,780	32.68
167	Woodbridge	50	1971	71,373,098	44.0	142,746,196	22.00
168	Woodbury	66	1964	38,759,166	46.5	75,169,272	23.98
169	Woodstock	60	1971	26,159,654	35.0	43,599,423	21.00
	Totals			$20,175,563,278	Avg. 48.88	$40,751,728,352	27.15 Avg.

13 to a high of nearly 49, with the mean and median rates at roughly 27 mills. Of Connecticut's 169 towns:

18 are below 20 mills;
45 are between 20 and 25 mills;
56 are between 25 and 30 mills;
34 are between 30 and 35 mills; and
16 are above 35 mills.

There is no simple way of determining the level at which the effective property tax rate becomes "too high." What is acceptable differs over time and among places and surely has much to do with the public services that the tax makes possible. In the northeastern United States, effective property tax rates of 2.5 to 3% (25 to 30 mills) are very common and seldom considered intolerable. This level of rates is higher than was common 15 or 20 years ago, but no higher than the levels prevailing in the 1920's and well below the levels in the 1930's.

It is true that 50 of Connecticut's towns have rates in excess of 30 mills, with some of the highest rates in the larger cities. However, the Commission's proposals for revisions in the school finance system and aid to municipalities will significantly reduce tax rate disparities, especially for the larger high-tax-rate cities and towns. Tax rates far above the average should be reduced, but that can be accomplished without a drastic statewide shift away from the property tax.

Another way of looking at the height of the property tax is to compare property taxes to income generated in a state, the best overall measure of a state's economy. In 1970, property taxes collected in Connecticut equaled 5.2% of personal income, compared to 4.6% for the country as a whole and 4.3% in the median state.[12] Since Connecticut depends heavily on the property tax one would expect property taxes in Connecticut to be high by national standards. Even so, Connecticut ranked sixteenth in the ratio of property taxes to personal income. Moreover, Connecticut ranked very low indeed in the ratio of other state-local taxes to personal income: the Connecticut percentage was 5.4, compared to a national average of 7.1%. For all State-local revenue sources combined (including fees and charges as well as taxes), the Connecticut percentage was 12.4, compared to a national average of 14.6%. Only 3 states had percentages denoting composite State and local tax burden lower than Connecticut's.[13]

Connecticut's property taxes are high per thousand dollars of property value simply because the State and local governments of Connecticut depend more heavily on this revenue source than many other states do.

Based upon the above, the Commission concluded that the present level of property taxes in Connecticut, while high, is not uniformly onerous and that a general reduction, either through a transfer of burden or through direct relief, is not appropriate to the overall State/local situation.

Inequities in the Property Tax

While the Commission did not find the property tax either exceptionally regressive or too high, it did find inequities which it wishes to see eliminated or relieved.

Inequalities in Assessments

The Commission believes this is the most serious of all of the problems which have been allowed to accumulate in the many years of property tax administration. Assessment inequalities exist both within and among the towns of the States.

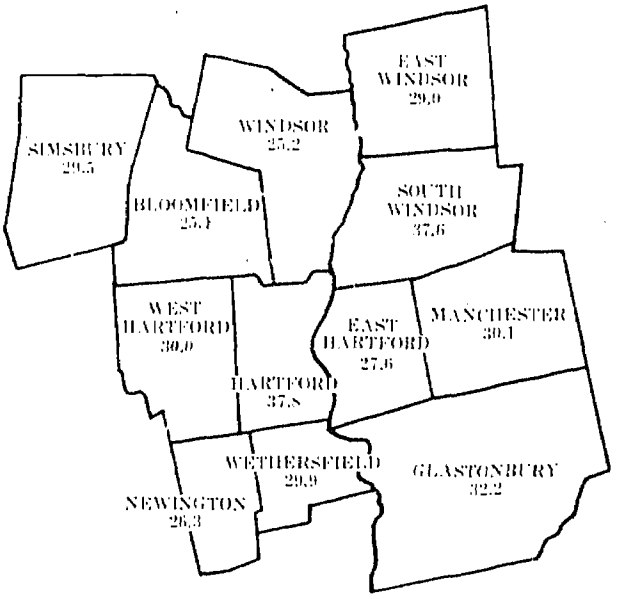
The list of required reforms is lengthy, and the subject is of great importance. The Commission has decided to devote an entire part of its Report to assessment reform. Part C contains a complete analysis of the major problems and the Commission's recommendations.

Geographical Inequities and the Problems of the Cities

Within any Connecticut metropolitan area, some towns have high tax rates, and some have low tax rates. Central cities generally have effective tax rates which exceed those of the surrounding suburbs. There patterns are shown in Charts A-2 to A-6 which are to be found at pages 16-18.

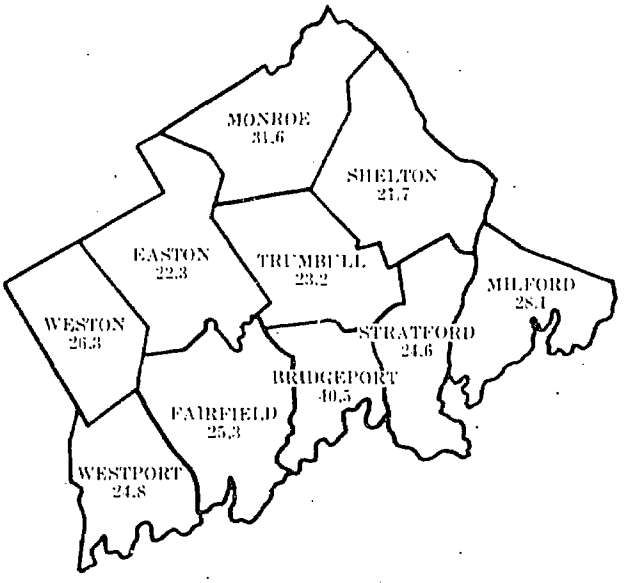
Municipal costs in the cities are higher than in the suburbs because of greater need for municipal services and higher costs of some services. Moreover, as fiscal needs are rising in the central cities,

CHART A-2
Hartford Area
Effective Tax Rates



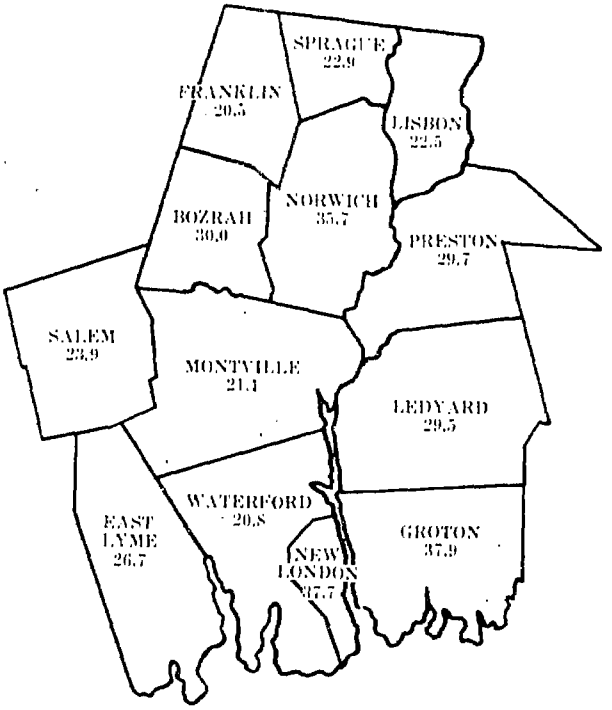
Source: Table A-7, Column 6.

CHART A-3
Bridgeport Area
Effective Tax Rates



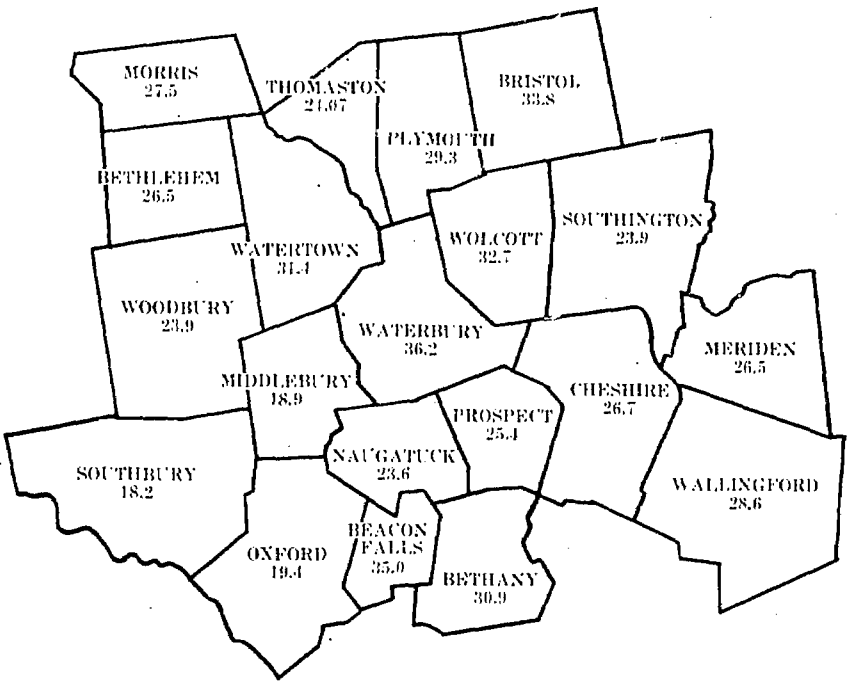
Source: Same.

CHART A-4
New London & Norwich Area
Effective Tax Rates



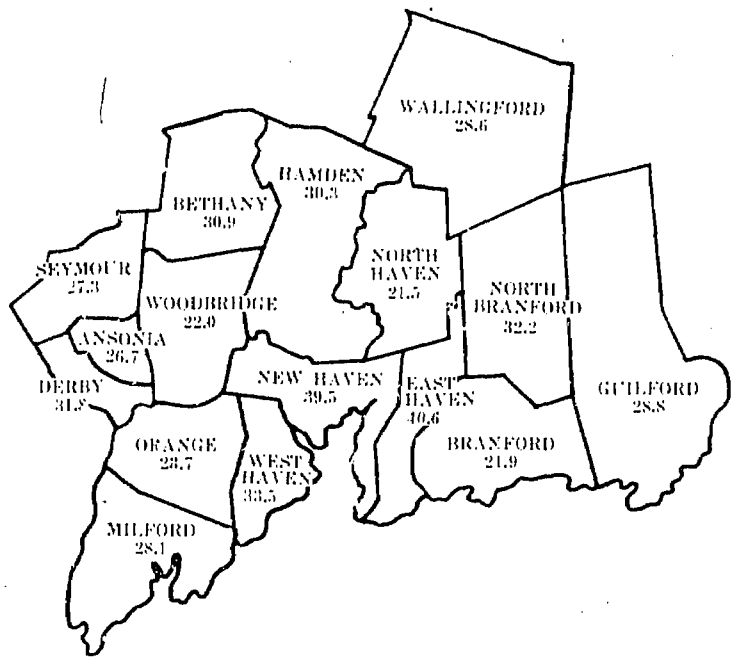
Source: Same.

CHART A-5
Waterbury Area
Effective Tax Rates



Source: Same.

CHART A-6
New Haven Area
Effective Tax Rates



Source: Same.

their tax bases are being eroded through the migration to the suburbs.

The Commission recommends a program of aid to cities which will help to alleviate their fiscal problems.

The School Finance Problem

The financing of public education has become a major topic of discussion since the decisions of the California Supreme Court in *Serrano* v. *Priest*, and of a three-judge Federal court in *San Antonio Independent School District* v. *Rodriguez*.

The theory of these cases has been (1) that reliance on the local property tax for the financing of local educational expenses produces tax-rate disparities between towns, as well as inherent and large differentials in expenditures, and (2) that such funding unconstitutionally discriminates against many students from poor and middle income families because it makes the quality of a child's education a function of the wealth of his parents and neighbors.

This problem can be seen by comparing two typical towns in Connecticut. Town A spends $1,000 per student from local property tax revenues and Town B spends $500 per student. Both towns also receive $500 per student of State and Federal aid, and both towns spend about two-thirds of their local property tax revenues on education. But Town A — enjoying high expenditure for schools — imposes an adjusted tax rate of only 15 mills (on full current market value of all property) while Town B faces a tax rate of 30 mills, or twice as great, even to raise half as much for education. In short, many towns can tax far

less and spend much more. Less fortunate towns can never catch up in school expenditure because taxes are already as high as homeowners can tolerate.

The Commission proposes the establishment of a school finance equalization plan. Each town and city would elect its desired mill rate per pupil and would be guaranteed a fixed dollar amount per mill per pupil. If the local property tax did not yield this amount, the State would, when the plan was fully effective, supply the difference. The towns whose tax base yielded more than the fixed dollar per mill per pupil would pay the excess into a common fund. This fund would be used by the State to supply the shortages in the towns having a below average tax base. Over a period of years, the plan would neutralize differences in taxpaying ability between local school districts. The plan would contain provisions designed to protect the high spending school districts against drastic spending cuts and to save any town from drastic tax increases. This school finance equalization plan is fully described in Part B of this Volume.

Property Taxes and the Elderly

The Commission is aware of the problems which the elderly of our State face when confronted with an ever-increasing property tax to pay or when confronted with escalating rents which reflect the higher taxes imposed on landlords. The relatively fixed and frequently lower incomes of the elderly as compared to other segments of the population make property tax payments particularly burdensome for them.

Connecticut has at present a program for relief for elderly owners of real property which has given them substantial assistance over recent years. **The Commission proposes to extend relief to elderly renters.** The proposed relief is in the form of a circuit breaker which would grant relief to those with incomes up to $7,500. An explanation of the circuit breaker is contained in the discussion at pages 28 to 30 of this Volume.

Tax-Exempt Property

The fact that our municipalities supply services to tax-exempt property has caused certain hardships in the host towns. **The Commission proposes a program for developing service charges which will result in the towns being reimbursed for some of the services they render to tax-exempt properties. In addition, the Commission proposes a program of State reimbursement to towns with large concentrations of tax-exempt property.**

The Special Case of Low and Moderate Income Housing

Although the Commission has not made any specific recommendations regarding the property taxation of low and moderate housing, the Commission believes that there are significant problems in this area which deserve further study. The purpose of this discussion is to raise some of the more troublesome problems.

Especially in urban areas, the housing stock of the State is characterized by a high degree of obsolescence and disrepair. At the same time, standards of quality are rising, along with the costs of construction and repair. As a result of these trends, low and moderate income families and individuals find themselves in a housing squeeze, where they cannot afford housing which is up to code standards unless they are aided by some form of subsidy.

The major source of housing subsidies needed by these families is the Federal government. The very poorest households may be aided by the Federal public housing program, in which the government pays the entire initial cost and some of the operating cost of units owned by local housing authorities. Households with slightly higher incomes are eligible for units built by private developers with Federal interest subsidies under the "221(d)(3)" and "236" programs (named for sections of the National Housing Act). These families could not afford such housing without these interest subsidies.

Property taxation plays a role in the production of both types of subsidized housing.

Low Rent Public Housing

Low-income public housing is exempt from real estate taxes under both Federal and State law. In lieu of taxes, local housing authorities are generally required by law to pay 10% of the shelter rent charged their tenants. Since this shelter rent is rendered artificially low by Federal subsidies, the payment represents a small percentage of the revenue which the locality would derive from use of the property by private developers.[14]

Public housing can be built by only one agency, the local housing authority. This authority is

created, pursuant to State and Federal law, by the town or municipality. The decision to utilize land within the locality for public housing therefore represents a decision by a local public authority to forego most of the taxes on that land. The higher the tax rate, the more revenue foregone. In addition, family public housing may require a concentration of municipal services, compounding the net fiscal loss suffered by the locality. Because public housing cannot be built without the cooperation and active participation of the localities through their housing authorities, poor families may be deprived of the only decent, safe, and sanitary housing they can afford if local public officials decide that they need the taxes which private development can generate on a site which might otherwise be devoted to public housing.

Clearly the localities would benefit from some system of reimbursement of foregone revenue from the construction of public housing especially since the concentration of low-income families in such housing may impose additional burdens on municipal services. One form of reimbursement is the block grant program administered under Sec. 8-159a of the General Statutes, which distributes unrestricted grants to localities under a formula which considers among other things the number of public housing rooms in the town. The Commission recommendation of the expansion of this program may help remove the economic disincentives to the construction of public housing which now exist.

Low and Moderate Rent Private Housing

The 221(d)(3) and 236 programs have provided, through interest subsidies, 10,000 units in the State for moderate income families who cannot afford new market-rate housing. Lower income families may also occupy these units with additional subsidies through the rent supplement and public housing leasing programs. Unlike public housing, these developments are not exempt from property taxation. However, because of the rent restrictions imposed on them, they cannot be built in many parts of the State if they must bear their full share of the tax burden.

The reason for this is that occupancy of these units is limited by Federal statute to families of low and moderate income. For the 236 program, this generally means not more than 135% of public housing income limits. The Department of Housing and Urban Development has established maximum permissible rents which can be charged to these residents, so the rent receipts of subsidized developments are strictly limited.

Out of these limited rent receipts must come management, operating, and other expenditures, including debt service. In a growing number of subsidized developments in the State, there is little or no money left over for the payment of property taxes. Since typically all of the other expenses will have been cut to the bone, abatement of some or all of the property taxes on such a project is likely to be a precondition to its construction.

What can be done to ease the property tax burden sufficiently to permit the construction of such needed housing? Municipalities may unilaterally reduce the assessment or the tax bill. Stamford has passed an ordinance permitting such a reduction, taking into account many factors of cost and need. Localities are hard pressed for funds, however, and cannot afford to forego much revenue in this manner.

The Department of Community Affairs (DCA) administers a program which is designed to deal with this problem by reimbursing the localities for the amount of the taxes abated. However, an administrative limit of $350 per unit has been set by DCA on the permissible yearly reimbursement. In a number of localities this limit has been shown to be too low, and in any case does not appear to have been contemplated by the statute.

To facilitate the construction and operation of this housing, and to spread the liability for its tax burden, low and moderate income private housing should perhaps be assessed uniformly by the income approach. This would take into consideration the statutory limitations on the gross receipts of such developments, and would reduce somewhat their tax liability. The upper limit on State reimbursement would then be the taxes due on such reduced assessed valuation, not an arbitrary dollar figure. Thus the State and the localities would share the burden of this necessary subsidy.

Such a change may or may not result in a need for greater appropriations for the tax abatement reimbursement program. Further study would be necessary to determine its costs, and for this reason the Commission has not embodied it in a formal recommendation. However, adoption of some such approach is necessary to remove some

of the tax pressure on subsidized housing units in the State, over 1000 of which face impending foreclosure if further tax relief is not granted. The State cannot afford to lose these needed housing resources for its low and moderate income families.

History of the Property Tax in Connecticut

The first tax in colonial Connecticut was levied in 1627 on shares of the Joint-stock Company of Adventurers, there being little other property which could be used as the basis of taxation at that time. A year or so later, the land of the colony was divided, and became the object of taxation by both the towns and the colonial legislature. At this time, real property was not taxed according to its value, but according to an estimate by the legislature of the average annual income of certain classes of land. Taxes were set for these classes by the legislature, not by local assessors. Gradually, houses, livestock, and other types of property were brought within this taxation scheme.

By the beginning of the 19th century, it was becoming clear that industrialization was distorting land values and that agricultural interests were being burdened excessively. As a result, in 1819 the property tax base was shifted from the statutory area measurement system to the market value assessment of individual properties. The industrial sector was further recognized by the inclusion of machinery, inventories, and other business personalty in the tax base. By 1850, every type of real and personal property not specifically exempted was taxed at a 3% rate.

The result of this shift to market value assessment was the replacement of problems of rigid standardization with equally different problems of disclosure and appraisal which have burdened the property tax collection system to this day.

Shortly after 1850, the State government ceased its levy on individual property owners and began to take a percentage of the overall grand list of each town. The predictable effect of this change was systematic undervaluation by local assessors, so as to minimize the amount of the State's share. In 1915, the State attempted to remedy this by dividing a fixed annual levy among the towns on the basis of their tax collections rather than their grand lists.

While the property tax remained the only major source of local revenues, it was increasingly supplemented at the State level by excises and other taxes. Finally, in 1947 the State property tax was supplanted by a general sales and use tax. The annual levy on the towns was discontinued and the State retired from the field of property taxation, except in the supervisory role which it maintains today.

Alternative Methods of Taxing Property

Before arriving at its decision to continue the property tax in essentially the same form, the Commission felt it important to investigate alternative methods of taxing property in order to determine whether such variations might be advantageous to Connecticut citizens.

Classification of the Property Tax Base

Classification of the property tax base is the division of the grand list into classes of property which bear the tax at different effective rates. Some states have constitutional requirements of across-the-board uniformity and thus classification is not legally available there.[15] Connecticut's constitution is silent on the subject, so it would be legally possible to provide by statute for a classified tax, subject to equal protection and due process considerations.[16]

The rate differentials among classes may be achieved by the following methods, among others:

1. differential fractional assessments;
2. fixed assessments made without reference to value, which produce different effective rates;
3. different methods of valuation (income capitalization replacement cost, etc.) which produce rate differentials;
4. different proportional tax rates;
5. varying exemptions applied to different classes.

These methods have been used in many states to create various classification schemes, including low-rate taxes on intangibles, mortgage recording taxes, preferential taxes on bank deposits and shares, bushel taxes on grain, tonnage taxes on ships, ad valorem taxes on mineral production, forest taxes, special treatment of land and/or buildings, the exemption of improvements, homestead exemptions, and the partial substitution of service charges for property taxes. Classification has been used most extensively to deal with the problem of taxing intangibles, which have often been taxed at a lower effective rate in order to encourage disclosure and minimize inequity.[17] Since Connecticut has abandoned the taxation of intangibles this reason for adopting a classified system does not apply here.

At least five states have comprehensive property tax classification systems: Minnesota, Montana, Ohio, Virginia, and West Virginia. Two other states, Hawaii and Pennsylvania, provide for differential rates for land and buildings. Other states either exempt or give special treatment to some classes of property. In addition, there is widespread extra-legal de facto classification carried out in many states by local assessors.[18] This is a danger the Commission wishes to avoid.

The movement for classification seems to have been most popular between the turn of the century and the Second World War. Recent attempts to institute classification systems, as in Tennessee, have failed.[19] The classification system adopted 9 years ago in Hawaii is really a modification of site value taxation which, while a form of classified system, is discussed in the next section.

Even if one could assume the validity and desirability of the concept of classification, it may be too much to expect either economists or legislatures to fashion a system that actually works. This is the conclusion of the foremost student of the classified tax system, who made the following observation over thirty years ago:

> "Within given states many of the classifications have little to recommend them. They are based upon questionable assumptions, reflecting political or other pressures rather than sound economic distinctions. Moreover, the more numerous the subdivisions into which property is divided the more questionable from the point of view of economic logic do the classifications and the rate differentials become. It is easy to point out defects in particular classifications —and many of the criticisms are rooted in personal opinions and economic beliefs subscribed to by the critics — but it is extremely difficult to say just what the classifications should be and far more difficult to lay down principles on which rate differentiations may be fixed. "[20]

More recent commentary has adduced no reasons to alter that judgment of the classified property tax.

The Commission therefore has concluded that the institution of a system of classification of property for purposes of taxation should not be recommended.

Site Value Taxation

One form of classification is the taxation of land and structures at differing effective rates, by law. For more than a century, there has been a significant body of opinion holding that land and structures should be differentially treated, with either no taxation of the value of structures at all, or heavier taxes on land than on building values. The argument for such "site value taxation" is twofold. First, the value of any particular site as unimproved land results from factors that have little to do with the actions of an individual landowner. A given site is valuable because a town or city has grown in population; because streets, roads and water, sewer, and other utility lines have been put in to serve that site and others in its vicinity; because the owners of adjacent sites have put up office buildings or stores or houses. Thus, it is argued, an individual landowner has little ethical claim to rising land values and it would be equitable for the community to recoup such "unearned increments" by imposing high taxes on site values.[21]

In addition to this equitable argument, there is a closely related economic argument. Since the landowner himself does not create land values,

taxing them away will not affect the decisions made by landowners. The return from investment in land (above and beyond interest costs on the investment) is a pure surplus, and taxing away surpluses does not affect economic decisions. Moreover, the supply of sites cannot be reduced in response to the reduced net returns caused by taxation (the case with regard to all other types of investment). The net result is that a site value tax is neutral in its effects on economic decisions relating to use of land. The present property tax, most of which falls on buildings, is not neutral, since it tends to discourage investment in buildings. Thus, a switch to site value taxation from the present unneutral tax would tend to foster more intensive use of land.

Differential or exclusive taxation of land has been widely adopted in a number of other countries, including Australia, New Zealand, South Africa, western Canada, Denmark, Taiwan, and Jamaica. It is also found, in a modified form, in Hawaii and in two Pennsylvania cities, Pittsburgh and Scranton. As experience in some of these areas has shown, the practical realities of a shift to exclusive or differentially very much heavier taxation of land in a well-developed place like Connecticut may create serious problems. Connecticut has long since adjusted to the existing system of property taxation, and major shifts in the distribution of the burden would be very unsettling, creating large capital gains and capital losses. The Commission believes that such shifts, even were they on balance desirable, should not be lightly made. At the very least, detailed studies of how the tax change would work for specific classes of taxpayers in specific communities would be an essential prerequisite.

... some places—for example, a relatively homogeneous largely residential suburban town — site value taxation would make little difference in the distribution of tax burdens. There would be little reason for such places to object to the tax change, but also very little reason to make the change. In other places, the distribution of the tax burden would be greatly altered — in some cases, from residential to business property owners, in others the reverse — with important land use consequences, such as the pressure to redevelop residential sites with good accessibility for commercial purposes.

Evidence on the specific effects of a shift to site value taxation in Connecticut's towns is far too skimpy to justify such a move. It should be pointed out that the Commission's recommendations for uniformity in assessments (see Vol. II, Part C) will tend to lead to substantial increases in the taxes on land, since land on the average is very much underassessed in Connecticut. In view of all these factors, the Commission finds no basis for recommending a change to site value taxation.

The Personal Property Tax

Personal property taxation began in the United States during Colonial days at which time the tax was levied largely against livestock. Taxation of machinery, equipment, furniture and fixtures, and inventories began principally in the 19th century.

Netzer places the beginning of the decline of the personal property tax as a form of revenue in the 1870's with the trend continuing through the late 1930's. Since the end of the 1930's, personal property has accounted for 16-17% of the property tax base.[22]

The principal reason for this shift away from the personal property tax is the difficulty of locating and valuing uniformly various types of personal property. In addition, personal property taxes of business equipment, particularly in manufacturing, have adverse effects on the location of economic activity both because of the level of the tax per se and because the personal property taxes are less certain and uniform than are the alternate ways of taxing business activity used in those states without a business personal property tax.

Shifting the Personal Property Tax

Because of the competitive circumstances in which the State's businesses find themselves, it is unlikely that Connecticut businesses can export much of the personal property tax. It is further unlikely that very much of the tax is shifted domestically to Connecticut consumers; Connecticut consumers have ready access to non-Connecticut products from firms located in non-personal property tax states.

Wightman tested the impact of property taxes on firms and their cost of doing business. Wightman concludes:

> "States that do not tax personal property offered considerable advantages to the manufacturing sector of the economy. Removal of taxes on machinery and equipment encourages older firms to replace outmoded equipment, and thus remain competitive. Replacement of taxes on inventory by state corporate income taxes increases the certainty and uniformity of tax bills, and relates taxes more closely to ability to pay. Seldom does a personal property tax location show up as a relatively low tax location in this comparison. This tax becomes increasingly burdensome as modern industry requires more and more investments in machinery and equipment per worker, and as a percentage of total assets."[23]

Conclusions of Commission

The Commission concluded that the personal property tax is extremely difficult to administer equitably. The tax is a major deterrent to business and industrial investment in the State. **Accordingly, the Commission recommends the repeal of the tax on post-1973 acquisitions of personal property other than motor vehicles, aircraft, personal property of public-service companies** (public utilities),[24] and the inventories which are being removed from the tax rolls under current law.[25] The result of this recommendation would be the phasing out of the tax on affected categories of presently-owned personal property as such property is depreciated. The Commission estimates that the bulk of this phase-out should be completed in 10 years. A reduction of revenue to each town would occur not by virtue of the removal of any existing property from its grand list, but because of the fact that no new items would be added each year. The Commission estimates that there would be approximately $150 million in assessed value of new acquisitions each year which would not be placed on the personal property grand list as a result of its recommendations.

This proposal would result in a reduction in the State's grand list of over $1.5 billion over a 10-year period, or less than 1% of the 1970 net grand list per year. The following shows the statewide breakdown of affected property, by class.

Total Personal Property on Which Tax would be Phased out under Commission Proposal (1970 list)

Machinery*	$1.014 million
Furniture	302
Boats	44
Farm machinery, tools	6
Animals, produce	3
Other	162
Total	$1.531 million

Reduction in each of 10 years: $153 million

Percent of total net list to be phased out under this program: Total 8%
Yearly .8%

*This category contains some machinery belonging to utilities, and may thus be slightly overstated.

Table A-8 shows the effect of the Commission proposal on the net grand lists of localities with over $20 million in affected property. These areas of concentrated commerce and industry would generally lose between 1 and 2% of their 1970 net list each year for 10 years under the Commission proposal.

TABLE A-8: Effect of Personal Property Tax Phase-Out Proposal on 1970 Net Grand Lists of Localities with More than $20 Million in Affected Property

	Personal Property to be phased out* ($ millions)	% of 1970 Net Grand List to be phased out each year for 10 years†	Average Annual Revenue Reductions Due to phase out 1970 Rate ($ millions)†
Hartford	144	1.6	1.1
Bridgeport	108	1.8	.8
New Haven	79	1.3	.6
Stamford	68	.8	.4
Milford	67	1.5	.3
East Hartford	64	1.3	.3
Waterbury	53	1.2	.4
Norwalk	51	1.1	.3
Greenwich	48	.3	.1
Middletown	45	2.1	.2
Stratford	32	1.0	.2
New Britain	29	1.0	.2
North Haven	28	1.6	.1
Danbury	25	.9	.1
Bristol	24	1.0	.2
Montville	21	2.2	.1

Source: Calculated from Public Doc. 48, pp. 50-81.

*In some localities, these totals may contain property belonging to uitilities, and may thus be slightly overstated.

†These yearly amounts will vary, depending on depreciation rates.

Relationship to Inventory Tax Phase-out Program

The Commission's recommendation that most of the personal property tax be phased out is consistent with the current program of phasing out taxation of manufacturers' and merchants' inventories.

Manufacturers' inventories are to be progressively removed from property tax rolls under Sec. 12-81 (50) of the Connecticut General Statutes according to the following schedule:

1970: 40% of assessment is exempted
1971: 50%
1972: 60%
1973: 70%
1974: 80%
1975: 90%
1976 and thereafter: 100%

Partial reimbursement of these foregone revenues is provided by Sec. 12-24a, which provides for the following distributions to localities based on the 1964 collections on manufacturers' inventories, which totaled approximately $18 million:

1970: 40% of 1964 collections
1971: 50%
1972: 60%
1973: 70%

There is no provision now in the statutes for reimbursement after 1973.

Merchants' inventories are to be phased off the tax rolls under Sec. 12-81 (54) which provides that an additional one-twelfth of such inventories be exempted each year from 1971 to 1982. Revenues foregone through these exemptions are to be reimbursed by the State in similar proportions, based upon 1967 collections (totalling approximately $14 million). This reimbursement totals 100% of 1967 collections on merchants' inventories in 1982, and continues at that level thereafter (Sec. 12-24c).

The Commission has concluded that these reimbursement programs are an inflexible and inappropriate method of relieving the hardships caused by the removal of some classes of property from local grand lists. They do not adequately reflect the fiscal needs of the localities, and their distribution formulas quickly become obsolete. **For these reasons, the Commission recommends the repeal of the inventory tax reimbursement programs, effective in FY '76.**

The Commission recognized the fact that these recommendations taken alone result in significant revenue losses to the localities. However, the Commission has concluded that, overall, these losses will be compensated for by other gains. Chief among the projected gains are revenues which would accrue to localities under the Commission's proposed program of aid to cities, set forth in detail later in this Part. This program provides for increased block grants and for State payments based on foregone revenue from private tax-exempt property. Under this proposal, an additional $20 million would be distributed to localities in FY '74 and FY '75. This amount would be increased to $40 million starting in FY '76, concurrent with the proposed repeal of the inventory tax reimbursement provisions.

Table A-9 shows the net effect of these recommendations in major localities in the State, through FY '77. It shows the revenue which would be lost due to the repeal of the personal property tax and the present reimbursement programs. It also shows the projected gains from increased block grants, payments for tax-exempt private property, and increased payments on State property (as recommended elsewhere in this Part).

The Commission believes that any net losses shown in this table would be more than offset by other gains, including the following:

1. New industrial and commercial development which will be encouraged by the repeal of the personal property tax.

2. The assessment reforms proposed by the Commission which will result in significant additional revenue coming from identification of under-assessed property in accordance with the existing statutes by FY '75 and thereafter.

3. An easing in many localities of their educational finance burdens, under the plan proposed in Part B.

TABLE A-9: Net Effect of Personal Property Tax and Aid to Cities Recommendations on Major Localities, FY '74-77

(thousands of dollars)

	Hartford	Bridge-port	New Haven	Stamford	Milford	East Hartford	Waterbury	Norwalk	Greenwich	Middle-town	Stratford	New Britain	North Haven	Danbury	Bristol	Montville
FY '74																
Revenue Lost: Personal																
Property Tax Repeal	−1152	−864	−632	−408	−268	−320	−371	−332	−96	−225	−160	−232	−140	−138	−156	−84
Revenue Gained:																
Block Grant	1540	1260	1175	435	125	190	535	275	100	110	130	475	30	155	145	18
Tax-Exempt	3340	1510	3050	0	0	0	340	0	280	110	0	410	0	0	0	0
State Pilot	289	53	289	48	34	3	38	21	2	50	5	116	1	47	1	1
Total	5169	2823	4514	483	159	193	913	296	382	270	135	1287	31	202	146	19
Net Gain or Loss	4017	1959	3882	75	−109	−127	542	−36	286	45	−25	1055	−109	64	−10	−65
FY '75																
Revenue Lost: Personal																
Property Tax Repeal	−2304	−1728	−1264	−816	[illegible]	−640	−742	−664	−192	−450	−320	−464	−280	−276	−312	−168
Revenue Gained:																
Block Grant	1540	1260	1175	435	125	190	535	275	100	110	130	475	30	155	145	18
Tax-Exempt	3340	1510	3050	0	0	0	340	0	280	110	0	410	0	0	0	0
State Pilot	289	53	289	48	34	3	38	21	2	50	5	116	1	47	1	1
Total	5169	2823	4514	483	159	193	913	296	382	270	135	1287	31	202	146	19
Net Gain or Loss	2865	1095	3250	−333	−377	−447	171	−368	190	−180	−185	823	−249	−74	−166	−149
FY '76																
Revenue Lost: Personal																
Property Tax Repeal	−3459	−2592	−1896	−1224	−804	−960	−1113	−996	−288	−675	−480	−696	−420	−414	−468	−252
Manufact. Inventory Repeal	−1084	−2382	−1072	−721	−308	−893	−1168	−630	−114	−138	−217	−799	−305	−420	−482	−36
Commer. Inventory Repeal	−1066	−604	−718	−413	−231	−448	−256	−221	−106	−93	−108	−218	−49	−173	−99	−10
Total	−5609	−5578	−3686	−2358	−1343	−2299	−2537	−1847	−508	−906	−805	−1713	−774	−834	−1049	−298
Revenue Gained:																
Block Grant	4620	3780	3525	1305	375	570	1605	825	300	330	390	1425	90	465	435	54
Tax-Exempt	3340	1510	3050	0	0	0	340	0	280	110	0	410	0	0	0	0
State Pilot	289	53	289	48	34	3	38	21	2	50	5	116	1	47	1	1
Total	8249	5343	6864	1353	409	573	1983	846	582	490	395	1951	91	512	436	55
Net Gain or Loss	2640	−235	3178	−1005	−934	−1726	−554	−1001	74	−416	−410	238	−683	−322	−613	−243
FY '77																
Revenue Lost: Personal																
Property Tax Repeal	−1608	−3456	−2528	−1432	−1072	−1280	−1484	−1328	−384	−900	−640	−928	−560	−552	−624	−336
Manufact. Inventory Repeal	−1084	−2383	−1073	−721	−307	−893	−1168	−630	−114	−138	−217	−799	−305	−420	−482	−36
Commer. Inventory Repeal	−1244	−704	−837	−481	−270	−520	−299	−258	−123	−109	−125	−254	−57	−202	−115	−12
Total	−6936	−6543	−4438	−2634	−1649	−2693	−2951	−2216	−621	−1147	−983	−1981	−922	−1174	−1221	−384
Revenue Gained:																
Block Grant	4620	3780	3525	1305	375	570	1605	825	300	330	390	1425	90	465	435	54
Tax-Exempt	3340	1510	3050	0	0	0	340	0	280	110	0	410	0	0	0	0
State Pilot	289	53	289	48	34	3	38	21	2	50	5	116	1	47	1	1
Total	8249	5343	6864	1353	409	573	1983	846	582	490	395	1951	91	512	436	55
Net Gain or Loss	1313	−1200	2426	−1281	−1240	−2120	−968	−1370	−39	−657	−588	−30	−831	−662	−785	−329

Property Tax Limits

From the taxpayer's point of view, taxes always seem too high. The property tax bill is particularly onerous for the homeowner, who is acutely aware of how much he has to pay. Given Connecticut's heavy dependence on the property tax, there is understandably widespread sentiment that increases in the tax should be curbed. One suggested means of accomplishing this end is to impose some statutory limits on the property tax.

Connecticut is one of only 7 states[26] which at present place no limits, either mild or severe, on local property taxation. Of the reasons cited in support of property tax limits, the most widely discussed is the following:

1. By limiting the amount of revenue which can be obtained from the property tax, the local government is forced to seek other sources of non-property revenue, thereby lessening the tax load on the beleaguered property owner.

It is also argued that:

2. Lower rate limits can be an inducement to attract industry into a community.
3. The use of tax-rate limitations will mean that the local governmental unit will have to take a new look at the various services it provides in order to determine whether they should be offered locally or by the state with its broader tax base.
4. The use of tax-rate limitations can mean that there will be an enlargement of state aid in order to provide adequate finances for the services provided locally.
5. The limited amount of property tax revenue available because of rate limits will force local governments to be more exacting in their budget prices.
6. A limitation of particular funds by the state legislature will ultimately aid in providing greater uniformity in the various services offered.
7. The limitation on property tax revenue, in combination with the demands of competing local governments for the tax dollar, will ultimately hasten the simplification of local governments.[27]

However, the history of property tax limits in other states and the latest pertinent research have greatly diminished the strength of these arguments. Legislation to limit property taxes is frequently riddled with exceptions, and often there are outright violations. Tax limits tend to transfer local government services to the state with a corresponding loss of local government autonomy. Since tax limits do not affect expenditure rates, the limits merely shift the burden to a different source of revenue. When the state assumes the financial burden, it generally assumes the control and there is a further loss of the fundamental local government perogative of budget making. Local governments are ruled much more by their expenditure needs than by their current revenue prospects, and tax limits have not been able to reverse this state of affairs.

Tax limits make sense only, if at all, when a state seeks to shift local government taxation away from property and toward non-property tax sources. When tax limits have not been part of a new local tax system in a state, their effectiveness in holding down expenditures has been dubious. Tax limits have enjoyed some success only when local governments have been given non-property sources of tax revenue as an alternative to the property tax. The imposition of tax limits in some cases may have accelerated a changeover to a new system.

Connecticut has not authorized local non-property sources of tax revenue and the Commission believes it would be unwise to change this policy. The Commission has concluded, therefore, that the imposition of property tax limits would very likely not be effective in this State. **The Commission believes that enactment of its recommendations relating to uniform assessment and administration of the property tax, and its recommendations concerning municipal fiscal practices, will be more effective in controlling property tax rates than an artificially imposed tax limitation.**

The Circuit Breaker

Existing Law

Equity considerations point to the need for tax relief for the elderly. Most of the really serious cases of regressivity are to be found among elderly households. Not only are elderly households more likely to be poorer than other age groups of the population, but their incomes are frequently fixed in amount. The elderly are least able to cope with property tax increases.

At present, Connecticut law (C.G.S. Section 12-129b) allows qualifying elderly people a property tax exemption of $1,000 on their domiciles and a freeze of the tax bill as of the year of qualification. The State reimburses the local municipality for the difference between the bill paid by the taxpayer and what the tax bill would be without both the exemption and the freeze.

The administration of this law in its present form has been very difficult due to the formula required by law to be used to compute the benefits. Furthermore, this law does not treat all elderly households in the same way. Elderly households which rent rather than own their homes receive no relief even though a portion of their rent undoubtedly goes toward property taxes. And, because of the freeze provision, elderly households recently qualified for relief do not receive the same level of benefits as elderly households which qualified before them even though there are no other differences between the households.

The Commission recommends the adoption of a "circuit breaker" so that elderly renters and the elderly owners can be treated more equitably. The Commission further recommends that any person currently receiving benefits under Section 12-129b greater than those which would be available under the circuit breaker shall be entitled to their existing benefits. The Commission recommends, however, that for all other purposes Section 12-129b be abandoned as a relief section.

The Concept of the Circuit Breaker

Given the desirability of tax relief to elderly households, one fair means of accomplishing it is to designate a certain percentage of income as a limit above which elderly households of low income would not have to pay in property taxes. By designating a percentage of a household's gross rents which is deemed to be devoted to taxes, one can include both renters and homeowners in a tax relief program.

This plan of a property tax "circuit breaker" for the elderly is not a novel idea. The states of Wisconsin, Minnesota, California, Vermont, Kansas, Colorado, Maine, New Jersey, Pennsylvania, Iowa, and Oregon already have some form of circuit breaker in operation.

Basic Design of a Circuit Breaker for Connecticut

The Commission recommends Connecticut adopt a circuit breaker which would grant direct relief up to $500 per year for qualified elderly households. To qualify for property tax relief, the head of the household must be 65 years of age or older, and the total income of the household from all sources, including Social Security, must be less than $7,500 per year (in 1972 dollars).

Relief for Homeowners

Under the plan, a homeowner would be entitled to direct relief in the form of a credit on his property tax bill if and to the extent that his actual tax bill exceeded 5% of his income. The maximum limit of the credit would be $500 for those in the lowest income bracket. The State would reimburse the municipalities by the amount of the tax credits. As an alternative, the homeowner could be required to pay the full amount to the municipality and apply directly to the State for the credit.

The dollar amount of relief would decline as the household income increased as follows:

Where the household income is	The maximum credit would be
$3,000	$500
3,500	450
4,000	400
4,500	350
5,000	300
5,500	250
6,000	200
6,500	150
7,000	100
7,500	50
7,500+	0

Relief for Renters

Under the plan, a renter would be entitled to relief in the form of a cash payment from the State to the extent that 20% of his annual gross rent (including utilities) exceeds 5% of his income. The maximum limit of cash payments would be $500 for those in the lowest income bracket. The schedule of cash payments exactly mirrors the schedule of maximum credits listed above.

The tax credits and cash payments would be made upon presentation to the town assessor of proof of age, household income, tax bill or rent paid, and other documentation as may be necessary.

Some examples may help to explain the workings of this circuit breaker:

(a) Suppose an elderly household has total income of $4,000 per year and rents an apartment for $150 per month including utilities. The household is obligated under the plan to pay up to 5% of its $4,000 income or $200 in property taxes. It is assumed that 20% of the rent goes toward the payment of property taxes. This means that the household is effectively paying $30 per month (20% of $150) or $360 per year in property taxes. Since the $360 payment is in excess of the established norm of 5% of income or $200, the renter is entitled to $160 direct cash payment from the State.

(b) Suppose an elderly household owns its home and has an income of $4,500 per year. Once again, the circuit breaker plan envisions that 5% of the $4,500 per year (or $225) is the proper amount to be devoted to the payment of property taxes. Suppose further that the actual property tax payment of the household is $350. The circuit breaker would then relieve the elderly homeowner from payments above $225 and the State would reimburse the municipality for $125 of that taxpayer's bill.

(c) Suppose an elderly household has total income of $7,000 per year and rents an apartment for $200 per month including utilities. The household is obligated to pay 5% of its $7,000 income or $350 in property taxes. Under the plan, it is assumed that 20% of the rent goes toward the payment of property taxes. This means that the household is effectively paying $40 per month (20% of $200) or $480 per year in property taxes. Since the $480 payment is in excess of the established norm of 5% of income or $350, the renter would be entitled to $130 direct cash payment from the State. However, in view of the household income level of $7,000, the actual cash payment would be limited to $100.

Administration of the Circuit Breaker

The operation of the circuit breaker requires data on the incomes of elderly households and data on the rents paid by tenant households. The plan would make it the responsibility of the elderly households to present all appropriate documentation to the town assessor. Income may be furnished by copies of Federal tax returns. Rental data may be corroborated by checks with landlords. Safeguards would have to be established to prevent landlords and tenants from certifying fraudulent rent payments. The Commission is of the opinion that the bulk of the administration of this relief provision could be administered by the existing staffs in offices of the assessors and tax collectors.

It is not possible to provide a detailed estimate of the cost of the recommended circuit breaker. However, from the data available, the following estimates have been made:

Relief for Elderly Renters —	1.9 - 5.4 million dollars
Relief for Elderly Homeowners —	12.3 - 15.0 million dollars
Administration —	.1 - .5 million dollars
Total	14.3 - 20.9 million dollars

Naturally, these costs are sensitive to the various eligibility limitations and other parameters of the circuit breaker. Lowering the $7,500 income requirement, raising the percentage of income considered applicable to property tax payments to above 5%, and reducing the schedule of maximum credits will lower the costs of the program. Doing the reverse will increase the total cost.

Relief Under Existing Section 12-129b

Many elderly homeowners are receiving relief under the provisions of Section 12-129b of the Connecticut General Statutes. The proposed circuit breaker is designed to extend relief to elderly renters and to eliminate the cumbersome and difficult administration of Section 12-129b. The Commission feels that benefits currently received

by any homeowner under Section 12-129b should not be diminished. **The Commission therefore recommends that the benefit levels and recipient lists of Section 12-129b be frozen in the year in which the circuit breaker is enacted,** and that the taxpayer be entitled to receive the greater of the benefits he receives under the existing Section 12-129b or under the circuit breaker. Newly eligible households would receive relief only under the circuit breaker.

Service Charges on Tax-Exempt Real Property

Currently in Connecticut about $3.5 billion in assessed valuation goes untaxed because of statutory exemptions. This amounts to about 16% of the total assessed valuation in the State. Tax-exempt property can be broken down as follows:[28]

	Millions of Dollars of Assessed Value
Federal Property	179.2
State Property	421.1
Municipal Property	1,317.2
Private Colleges and Universities	260.8
Parochial and Private Schools	194.0
Churches	349.0
Hospitals, Veterans, and Charitable Organizations	282.1
Housing Authorities	127.0
Other	391.0
Total	3,526.4

If Federal properties are deleted because of the impossibility of levying a tax or service charge against them, and if municipal properties are deleted because the municipalities would not register any net gain by assessing levies against themselves, the total of tax-exempt property in the State is reduced to $2.03 billion in assessed valuation. If, further, State property were withdrawn for reasons which will be explained below, the total of non-governmental tax-exempt property would be reduced to about $1.61 billion. Non-governmental tax-exempt property thus comprises less than half of all tax-exempt property.

If the towns and cities of Connecticut could secure additional revenue from the tax-exempt properties within their borders, reduced taxes could result. For the most part, tax-exempt properties are located in the cities of the State where the tax rates are high and where such tax relief is sorely needed.

In devising policy toward tax-exempt property, at least three approaches can be taken:

Approach A holds that tax-exempt institutions are just like any other property owners and should pay their full share. This is the basis for the strongest attack on property tax exemptions. This view, however, requires the reevaluation of the overall desirability of tax exemptions in view of the likely consequences of imposing taxes on previously tax-exempt properties. For example, if churches are taxed it is altogether reasonable to expect church expansion plans may be curtailed, that some churches will be forced to share buildings, and that new construction will not offer tall steeples and fine organs. In short, taxes will be included in cost calculations, and they are likely to have an important impact. The benefits dispersed by tax-exempt institutions would unquestionably decline.

Approach B holds that tax-exempt properties are special, that society would lose some of what it now prizes if tax exemptions were discontinued. Society values education, religion, fraternal organizations and hospitals. Accordingly, these values must be encouraged and not hindered by public policy in any way. Tax exemptions are directed toward these ends, and it is argued that they are important in achieving such social goals.

Approach C holds that tax-exempt properties are unique and desirable, and that they should not have to pay the full burden of taxes; but a measure of sophistication is added by recognizing that tax-exempt properties do use services from local government and that exemptions from the property tax means that no compensation is rendered for such services. This approach recognizes and emphasizes that tax-exempt properties should be encouraged for their overall benefits, as our society has often recognized, and that government should continue to play a role in encouraging such institutions because they often perform services that either the State or local governments might have to perform in their absence.

Without violating these conclusions or damaging the well-being of tax-exempt institutions, however, the last approach would take into account other aspects of tax exemptions. Most important, city revenues from taxable property are required to provide services to tax-exempt property owners, and these institutions frequently benefit a wider population than the residents of the host town or city alone. While some tax-exempt institutions benefit people in a wide area (and studies of health institutions and others have documented this fact), only the residents of the host towns and cities pay the cost of municipal services provided tax-exempt institutions. Given the desirability of matching up costs and benefits, it is not unreasonable to suggest that cities should be compensated for the revenue foregone by exemptions for properties which render services to citizens living outside their boundaries. To this extent, a strong case is made for some mechanism to compensate towns and cities with a heavy concentration of tax-exempt properties through the use of revenue sources which would spread the cost among the wider population which such institutions benefit.

At the same time, recognition that tax-exempt institutions should not be required to take a full share of the cost of local government does not mean that modest and appropriate charges should not be made for city services rendered directly to those institutions. The city can easily monitor such services and determine their true cost. The city could levy service charges on these institutions which would not be too onerous to the institution and which could help defray the high costs of local government.

This approach is not new in Connecticut. Many tax-exempt institutions are currently paying for some of the services which they receive from the municipality in which they are located. The Commission recommends applying this approach to more towns and cities, and to more tax-exempt institutions.

Service charges are much like prices and are relatively easy to develop when the service provided can be metered. Water, electricity, and mass transit are the classic examples of services for which charges are applicable and widely used. The concept can also be extended to sewerage and sanitation.

Connecticut ranks low in its use of service charges. Only about 13% of its total local revenue from own sources is derived from service charges. The U.S. average is closer to 30%. Current charges come to only $38 per capita in Connecticut as opposed to $51.50 nationwide. Looking solely at sewerage and sanitation, charges for these services account for only 6.7% and 5.2% of expenditures, respectively. The national averages are significantly above that.

If towns and cities were able to charge tax-exempt institutions for sewerage and sanitation services, they would be able to recover more of their costs. The costs recovered would naturally vary from town to town and from property to property. As a rough estimate, if towns and cities charged tax-exempt properties the full cost of providing sewerage and sanitation services to them, they would be able to recover a total of approximately $3.5 million.

Where not provided by private industry, **the Commission recommends that non-governmental tax-exempt institutions be charged for the costs of providing water, sewerage, and sanitation services to them.**

The Commission further recommends that service charges for the use of municipal services by tax-exempt properties should be developed by the chief financial officer of each town and city in accordance with procedures mandated by the State and that such service charges should be levied by the towns in which tax-exempt institutions are located.

Although it is not recommended that State property be charged for municipal services, the Commission has considered the provisions of Section 12-19a of the Connecticut General Statutes which provides for State reimbursement to towns for tax-exempt property owned by the State. The necessary funds required to carry out the provisions of Section 12-19a have not been fully appropriated. **The Commission recommends that the legislature appropriate sufficient funds to carry out the terms of Section 12-19a.** It is understood that this would require a yearly increase of $1.8 million, making the total amount necessary to fund the provisions of this section $3.6 million. This additional aid will go primarily to the cities and will again help to reduce or maintain the current level of those cities' property tax.

The Effects of the Real Property Tax on Urban Capital Formation

The market value of real property and the tax collected from that property are interdependent. As property taxes depend on assessed valuation, so market values of that property reflect the property taxes levied to a greater or lesser degree depending on the functioning of the market itself. This is the concept of tax capitalization.

The interaction between the property tax and market values of real properties complicates and often distorts the flow of investment into urban real estate. Location choices depend on taxes as do choices to invest at all in urban areas.

Business and Industrial Location Decisions

Although business and industrial location decisions are influenced by many factors, economic activities requiring heavy investment in real estate are especially sensitive to real property tax rates. Investors seeking a location for a new economic activity can ordinarily find several possible sites with similar characteristics and non-tax operating costs. In such a case, the property tax potential of one location versus others can become the deciding factor in investment decision-making. Such a consideration has led many states and localities, especially in the South, to offer tax concessions in an effort to attract business and industry.

Business and industrial location decisions may be most responsive to tax differentials at the time of an original location decision, but relatively high property taxes can thwart additional investment in an area, and expedite a company's decision to move at a time in its development when the corporate strategy calls for expansion, consolidation, operating realignments, or absolute reductions.

Towns actively engaged in seeking new industry through tax concessions, or which attract new industry merely because of low tax conditions, may concurrently enact zoning regulations which hinder the movement into the town of large numbers of people whose presence might call for vastly increased public expenditures. Although this can be characterized as fiscally rational behavior, it is adverse to general social interest. The "game" is won by the town which gets the high value, low-service-requiring business or industrial investment, and manages to deflect population growth into other areas.

Residential Investment

The isolation of the effect of taxes on residential location decisions is extremely difficult. So many factors enter into housing decisions that real property taxation may not be a primary consideration, particularly with respect to home ownership. As with industrial location decisions, however, property taxation may be an important determinant in choosing to invest in otherwise equivalent residential properties.

In an effort to analyze the influence of the property tax on residential investment, a simple model designed to explain housing starts was developed and estimated. The results are not put forward as conclusive since there was insufficient time to explore other and more complex model specifications. However, the results are suggestive and the Commission believes that they merit inclusion here.

A simple correlation of the estimated effective mill rate and new housing units per capita for the 29 towns in the Hartford Region in 1970 indicates that housing construction was systematically lower in the towns with the higher tax rates. This is not conclusive evidence, but it suggests that the property tax *does* influence housing investment.

As Charts A-2 through A-6 (pages 16 to 18) show, the highest tax rates are found in the major cities of the State. Even after assessment reform, tax rate differentials will work against attracting residential investment in major cities.

The sensitivity of rental housing investment to property tax rates is clearly evident. As the flight of households to the suburbs continues, the laws of supply and demand act to keep rents from increasing as rapidly as taxes. As a result, the property tax as a percentage of gross rental receipts has steadily increased. The prevailing industry view is that once property taxes reach 25% or more of gross rental receipts, new construction of rental housing is severely inhibited. This view is consistent with the Commission's analysis of rental housing in the Hartford area. The Commission studied a sample of Hartford

area apartments. Although the data do not constitute a random sampling of Hartford apartment properties, the Commission believes the data are representative. This analysis generally indicates that prior to 1968, taxes as a percentage of gross rental collections were concentrated below 22%. From 1968 on, the ratios were heavily concentrated above 22% with shifts upward in 1969, 1970, and 1971 to above 25%. Concurrent with these upward shifts in property taxes as a percent of rent was a precipitous drop in housing starts.

The coincidental rise in property taxes as a share of apartment rent collections, and the drop in the number of apartments started in Hartford is not conclusive evidence of a simple direct relationship. The availability of sites and mortgage money and changes in zoning laws and building codes among other things influence decisions to invest. The data do permit, however, the hypothesis that in Hartford, given present rent levels and the demand and supply forces of real estate, real property taxes higher than 22%-25% of gross revenue collections are an inhibitor to new investment in rental housing.

The hypothesis is consistent with one expert's findings of investor attitudes in Hartford. Smith asked 176 investors what they would do with money received if they were to liquidate their real estate investments in Hartford in the near future: 34% indicated they would like to invest in real estate outside Hartford; only 9% indicated a willingness to reinvest in Hartford real estate; 10% did not respond; all others preferred an alternative to real estate investment.[29]

A typical response of an investor unable to pass on tax increases to tenants is to try to reduce maintenance and repair costs. Deferred maintenance over time invariably results in a property's physical deterioration and market position. Sternlieb found that landlords of tenement properties are not knowledgeable about what kinds of repairs and maintenance expenditures could be made without experiencing increases in assessments.[30] Smith discovered the same reaction among investors in Hartford.[31]

Once the property tax rises above a certain level of gross revenue collections, it becomes a major factor in contributing to urban blight and real estate deterioration. Investors find themselves at the mercy of interacting destructive forces, such as the rising property tax, falling income, accumulated maintenance and repair requirements, possible tenant abuses, and building code violations. The forces interact to produce a destructive cycle which frequently results in property abandonment. Data are not available to indicate the magnitude of abandonments in Connecticut, but it is known to be a rising problem. A 1972 survey by the New Haven Redevelopment Agency discovered at least 300 abandoned properties in New Haven.

It would not be fair to say that the real property tax is the cause of blight, slums, and decay. It is, however, reasonable to state that the insensitivity of the property tax to property revenues generated is a major factor in starting a destructive cycle which produces blight, slums, and abandonments.

Relief from Property Tax Burdens and Attention to the Special Circumstances of Cities

The distress of the cities and their inability to cope with problems not of their own making have persuaded the Commission to advocate a special program of relief. Core cities cannot generate revenues from property taxes sufficient to cope with their burdens without raising property taxes to an exorbitant level. The concern of the Commission is to ease the property tax burden on particular taxpayers and to identify alternative sources of revenue for cities. **The relief program for cities has as its specific purpose a reduction of mill rates in cities, and not an increase in services.**

The program consists of two parts: (1) an increase in block grants which are related to demographic and economic conditions found primarily in core cities; and (2) payments to cities with high concentrations of non-governmental tax-exempt property.

Block Grants

In recognition of the special problems of cities, the General Assembly enacted in 1969 a multifaceted system of block grants, called "property tax relief grants" in the 1972 appropriation act.

Every city and town in the State receives financial aid under this program according to distribution formulas which favor localities with special problems and burdens. The localities may use this money as they choose; it is, in effect, a State revenue sharing program.

Section 8-159a of the Connecticut General Statutes provides that each municipality be paid an unrestricted grant-in-aid in an amount which depends on its population, density, and number of public housing rooms. Under Section 10-266k of the General Statutes, a second block grant fund is distributed according to the number of families in the locality earning less than $4,000 per year, and the number of children receiving Aid to Dependent Children.

These grant programs have been funded at the following levels:

	8-159a	10-266k
FY 1969-71	$7,000,000	$3,000,000
FY 1971-72	7,150,000	4,500,000
FY 1972-73	4,500,000	2,000,000

The block grant distribution formula has several advantages. It is related to municipal costs and needs. It is based upon identifiable and objective economic and demographic data. These data are also easily accessible, thus entailing minimal administrative cost. **The Commission recommends that additional funds be appropriated for the block grant programs as part of a system of aid to municipalities.**

It is important to note that the distribution formulas are established by the statutes and apply on a percentage basis no matter how much money is appropriated. Because of their demographic and economic conditions, the 5 major cities of the State may be expected to receive half of whatever amount is appropriated for these programs. (See Table A-10 for the percentages received by these cities, and by other localities which are due more than 1% of the funds under either statute.) **The Commission recommends the continuation of existing block grant programs at a funding level of an additional $5 million for each program in FY 1974 and FY 1975, and an additional $15 million each in FY 1976 and thereafter.**

Tax Relief on the Basis of Non-Governmental Tax-Exempt Property

The Commission proposes State payment to municipalities to provide revenue which would otherwise be lost as a result of concentrations of non-governmental tax-exempt property. **The Commission recommends the creation of a State fund of $10 million to be apportioned to municipalities as reimbursement for revenue foregone due to large concentrations of non-governmental tax-exempt property.**

Generally speaking, the larger cities are impacted with heavier shares of tax-exempt property than the smaller cities and towns. Partial reimbursement for tax-exempt property, while affecting a wide spectrum of Connecticut's cities and towns, will benefit the larger cities most.

The reimbursement plan would operate as follows:

TABLE A-10: Distributions to Localities Receiving More than 1% of Either 8-159a or 10-266k Block Grant Funds (1972)

	8-159a (% of State Total)	10-266k) (% of State Total)
Ansonia	1.1	.7
Bridgeport	14.9	10.3
Bristol	1.7	1.2
Danbury	1.5	1.6
East Hartford	2.5	1.3
Greenwich	1.2	.8
Groton	.4	1.6
Hamden	1.2	.9
Hartford	14.5	16.3
Manchester	1.3	1.1
Meriden	2.0	2.0
Milford	1.5	1.0
Middletown	1.0	1.2
New Britain	5.9	3.6
New Haven	10.7	12.8
New London	1.8	1.6
Norwalk	2.8	2.7
Norwich	1.3	1.8
Stamford	5.2	3.5
Stratford	1.8	.8
Waterbury	5.1	5.6
West Hartford	1.7	.8
West Haven	2.8	1.7

Source: Calculated from data provided by Office of the State Controller, and State Department of Education.

1. The State is to set aside a sum of money to be divided among the State's qualifying cities and towns. The Commission recommends that $10 million be allocated for this purpose.

2. A city or town qualifies if its share of non-governmental tax-exempt property as a percentage of its total property assessments (gross grand list) exceeds the average for all towns in the State, and if its weighted non-governmental tax-exempt property assessments (see 3 below) total $50 million or more.

3. Each qualifying town's total of private tax-exempt property assessments (at full value) is weighted by a factor which is that town's net grand list per square mile. This density factor indicates a general value of property in the towns and thus approximates the relative revenues foregone due to the presence of tax-exempt institutions.

4. The fund is distributed according to each town's weighted exempt assessments as a percent of the total of every qualifying town's exempt assessments.

An example may help to illustrate the workings of the plan. Suppose that statewide, private tax-exempt property came to 10% of all property assessments figured at 100% of market value. Suppose further that Town X had an exempt percentage of 18%, 5 percentage points higher than the State average, and that Town Y had an exempt percentage of 14%. Suppose further that: (1) Town X has $200 million in exempt property and Town Y has $100 million; (2) only Towns X and Y have exempt percentages greater than the statewide average; and (3) Town X has a net grand list per square mile of $1.5 million, while Town Y's comparable figure is $1.2 million.

Town X's exempt assessments would be weighted by 1.5 and Town Y's exempt assessments would carry the weight of 1.2. The reimbursement fund would be allocated between the two towns according to the following:

Town X:	1.5 x $200 million =	$300 million (weighted assessments)
Town Y:	1.2 x $100 million =	$120 million (weighted assessments)
	Total	$420 million

Town X would receive $300 million / $420 million = 71.5% of the fund, while Town Y would receive 28.5%.

At present the allocation of the fund would be to the following towns:

Percentage Shares for Cities Qualifying for Tax Relief Based on Non-Governmental Tax-Exempt Property

Hartford	33.43%
New Haven	30.56%
Bridgeport	15.05%
New London	6.03%
Waterbury	3.39%
Norwich	0.52%
New Britain	4.14%
Fairfield	3.05%
Middletown	1.05%
Greenwich	2.79%
	100%

Summary

The Commission recommends that two programs contributing tax relief to the cities be either expanded or established:

1. **Continuance of Sections 8-159a and 10-266k of the Connecticut General Statutes at a funding level of an additional $5 million for each Section in FY '74 and FY '75, and an additional $15 million each in FY '76 and thereafter.** The reason for the proposed increase in FY '76 is to help offset the effects of the Commission's recommendation that State reimbursement for taxes on inventories be repealed as of that year.
2. **Creation of a State fund of $10 million to be apportioned to municipalities as reimbursement for revenue foregone due to large concentrations of non-governmental tax-exempt property.**

For an analysis of the impact of these recommendations on major Connecticut localities, see Table A-9. This table shows the extent to which the aid to cities program would assist those municipalities most affected by the proposed repeal of personal property taxes and of the inventory tax reimbursement program. Immediately, the Commission expects that the aid to cities program will permit a reduction in the mill rates. In the long term the Commission believes its total program will provide for a continued reduction in property taxes in these and other cities in the State.

Conclusion

A summary of the impact of the Commission's program related to the property tax and local revenues may be found in Volume I, page 83, and Volume II, page 6.

FOOTNOTES TO PART A

1 Advisory Commission on Intergovernmental Relations (ACIR), *State-Local Finances: Significant Features and Suggested Legislation* (1972), Table A, Table 12.

2 Forty percent projected for FY '74 from information in *Report* of the Connecticut State Revenue Task Force. (1971), p. 24.

3 See Table A-2.

4 Congressional Research Service, *Property Taxation: Its Effects on Land Use and Local Government Revenues* (1971), p. 1.

5 ACIR, *State-Local Finances* (1972), Table 12.

6 The burden and incidence of taxes in Connecticut are further discussed in Vol. III, Part B.

7 ACIR, *State-Local Finances* (1972), Table 74.

8 Connecticut Public Document 48, *Information Relative to the Assessment and Collection of Taxes* (1971), pp. 82-85.

9 Dick Netzer, *Economics of the Property Tax* (Washington, D.C.: The Brookings Institution, 1966), pp. 40-41.

10 T. R. Smith, "An Analysis of Sales Ratios with Comments on Property Tax Regressivity," *The Assessor's Journal* (April 24, 1972).

11 See Mason Gaffney, "The Property Tax Is a Progressive Tax," *Proceedings of the 64th Annual Conference on Taxation*, National Tax Association (1971). See also *Fortune Magazine* (May, 1972), p. 105.

12 ACIR, *State-Local Finances*, Table 32.

13 *Ibid.*, Table 12.

14 Private apartment houses, with rent levels several times those of public housing projects, commonly pay property taxes equal to between 20 and 30% of their rental income.

15 Extra-legal classification by differential assessments has been a problem in Connecticut and other states, however. See, for instance, Francis J. Shannon, *The Conflict Between Law and Administrative Practice in Valuation of Property for Taxation in Kentucky* (Lexington: University of Kentucky, 1957).

16 The Supreme Court has often upheld differential rates of taxation if the classifications on which they are based are "reasonable."

17 As Netzer has pointed out, a full-rate tax on, say, demand deposits which bear no interest would be confiscatory. Dick Netzer, *Impact of the Property Tax: Its Economic Implications for Urban Problems*, p. 5, supplied by the National Commission on Urban Problems to the Joint Economic Committee of the U.S. Congress (Washington, D.C., 1968).

18 The most striking example of this practice is in Cook County, Illinois. See Thomas G. Lyons, "The Classification Issue in Illinois," in Tax Institute of America, *The Property Tax: Problems and Potentials* (1967), p. 216.

19 See W. R. Snodgrass, "The Classification Issue in Tennessee," in Tax Institute of America, note 4, p. 221.

20 S. E. Leland, "Some Observations Concerning the Classified Property Tax," in Tax Policy League, *Property Taxes* (1940), p. 108.

21 This may be true in the prevailing American situation, where land ownership is fragmented among many firms and individuals. In the case of large-scale land developers (e.g., a new-town developer) who themselves are responsible for population growth and for the character of all land sizes within the area, equity as well as proper economic incentives demand that the developer be able to retain much of the resulting appreciation.

22 Dick Netzer, *Economics of the Property Tax*, pp. 138-139.

23 James W. Wightman, *The Impact of State and Local Fiscal Policy on Redevelopment Areas in the Northeast*, Federal Reserve Bank of Boston, Research Report No. 40 (March, 1968), p. 11.

24 As defined in Sec. 16-1 of the Connecticut General Statutes.

25 For a discussion of the impact of personal property taxation on business, see Volume III, Part B of this Report.

26 Maine, Maryland, Massachusetts, New Hampshire, New Jersey, and Vermont are the others.

27 Irving Howards, "Property-Tax Rate Limits: A View of Local Government," in Richard W. Lindholm (ed.), *Property Taxation, USA* (Madison, Wis.: University of Wisconsin Press, 1967), pp. 178 ff.

28 "Survey of Tax Exempt Property and Foregone Local Tax Revenue in Connecticut Municipalities," compiled by the New Haven City Planning Department from the "1970 Abstract of Real Estate Exempt from Taxation," State of Connecticut (1972).

29 T. R. Smith, *Real Property Taxation and the Urban Center* (Hartford, Conn.: John C. Lincoln Institute, 1972), p. 87.

30 George Sternlieb, *The Tenement Landlord* (New Brunswick, N.J.: Urban Study Center, Rutgers State University, 1966), pp. 211-217.

31 Smith, *Real Property Taxation*, p. 85.

PART B

School Finance Reform

Introduction

Public elementary and secondary education is the single largest government service supported by the taxpayers of Connecticut. In 1970-71, our 169 towns spent $758 million on their public schools ($1140 per pupil average for 665,000 students). Of the total amount spent, the largest portion was raised locally by the towns — $485 million or 64% — while $253 million (33%) came from the State budget and $20 million (2.6%) was received from the Federal Government. Overall, the towns spent two-thirds of all local property tax revenues on education. The State government spent approximately 31% of the General Fund budget for education.

Local funds for education come from one source: the local property tax. The towns of Connecticut levy a property tax equal to an average of just over $200 per year for every person in the State; this tax on residential and business property is the primary means of supporting the public schools, and two-thirds of the $723 million raised by the property tax in 1970 went to education.

In examining taxes, therefore, the Commission found that, in large part, the property tax is the school tax. To consider the fundamental problems and inequities of the property tax, it becomes necessary to look at public school finance and the property tax as a single system. The ability of a town to raise funds for education, on the one hand, determines its ability to spend on education; on the other hand, ability to raise funds from the local property tax reflects community wealth. Thus, community wealth is closely related to educational expenditure through the property tax. It is this relationship, and its implications, that the Commission had to face as it addressed the issues of school finance reform.

Findings and Conclusions

The Commission finds that, while the property tax is an appropriate source of revenue for public elementary and secondary education, the current system of financing public schools by local property taxes is harmful and inadequate in six respects:

1. *The Public School Finance System is Inequitable:*

Persons of equal financial status — with equal incomes and houses of equal value — pay markedly different property tax bills, varying by as much as 100%, and those who pay the most are often those whose towns are able to spend the least on the public school system. Two families owning $30,000 homes may pay as much as $1200, or as little as $500, in local property tax; and the family paying several hundred dollars per year is likely to receive nothing more (and perhaps less) for its money.

2. *The Public School Finance System is Inherently Unequal:*

The current public school finance system severely impairs our public school system, preventing equal opportunity being achieved for the many towns unable to spend anywhere near as much as some other towns in the State. For example, 5 towns spend an average of over $1,200 per pupil on net current expenses alone while 5 towns at the other end of the scale are able to spend less than $600 per pupil. Yet it is impossible for the lower expenditure towns to catch up to the higher expenditure towns inasmuch as those same 5 low expenditure towns are already taxed at rates 50% higher than the same 5 high expenditure towns spending more than twice as much.

3. *The Public School Finance System has an impact on Communities which affects the Quality of Education.*

The public school finance system distorts community development patterns, sorting and segregating suburbanities, as well as inner-city residents, by economic group. Such residential patterns limit the effectiveness of many or all public schools by taking away the opportunity of students from different socio-economic groups to learn from their peers of other socio-economic backgrounds. We are coming to a point where more affluent persons tend to live in towns populated by equally affluent persons and no others, poor persons in towns with none but the poor, and middle-income persons with none but other middle-income persons. That means few students mix with persons of different background, and the poverty of aspiration and experience created in our schools is damaging to everyone, regardless of race, income, or family background.

4. *The Public School Finance System May Be Unconstitutional:*

The public school finance system has been held unconstitutional under pending decisions not as

yet reviewed by the U.S. Supreme Court: and it may be found unconstitutional under decisions to be made by the U.S. Supreme Court, and binding on Connecticut, in the near future. Under decisions made by State and Federal courts in Texas and California, school finance systems closely resembling Connecticut's were held unconstitutional. Those courts found that children in some towns were denied equal protection of the law when local property tax financing made it impossible for their schools to spend nearly as much as other school systems at tax rates equal to or even higher than the tax rates of those towns. And, even under existing Connecticut laws, the existing finance system which prevents equal opportunity is contrary to State policy as expressed in Section 10-1a, General Statutes, passed under State Constitutional authority, which states that "the educational interest of the State shall include . . . that each child shall have . . . equal opportunity to receive a suitable program of educational experience."

5. *Public School Finance Inequities Are Becoming Greater:*

Because wealthier residents tend to move to towns where property tax rates are lower while less fortunate families cannot afford to follow, and business firms also tend to choose the towns with low tax rates, the low tax rate towns spend more and more with little or no tax increase while other towns keep raising taxes just to keep even. School expenditures in some towns keep growing by $50 and $100 per year — while other towns, many as low as $500 to $600 per pupil, struggle to increase by even $25 to $30. And economic segregation is becoming markedly worse among high, middle, and low income families.

6. *The Public School Finance System Includes No Effective Mechanism for Providing Special Educational Efforts to Achieve Equal Opportunity for Many Children:*

In towns with large numbers of children needing special programs — because of mental or emotional handicaps, home environment, or simply individual difficulties as reflected in achievement measures — there is far too little outside aid. Existing State programs do not automatically provide sufficient funds for many special educational needs. Many existing programs are small, variable, and limited to only some of those children in need of special educational effort. For the town with a large number of children needing special help, neither the current system nor a simple equalization scheme would provide the funds for programs sorely needed if equal educational opportunity is to be more than an empty slogan.

Lest the above findings lead to the conclusion that we have failed in our public school system, the Commission must emphasize that there is much that is right with our schools. The Commission sought to examine taxes and did not deal with educational quality in depth; yet we know that Connecticut boasts some of the finest public school systems in the nation. Even as we focus on inequality due to the inability of some school systems to raise and spend on a level anywhere near the more fortunate districts, many extraordinary individuals and imaginative approaches bring high quality education even where expenditures are low. *Our local school systems hold promise and opportunity, as well as a solid record of achievement, which convince the Commission that local operation and decision-making are important aspects of our educational system.*

But this report is not intended to praise what is right or satisfactory. The Commission was charged with the responsibility of finding and documenting the problems of our property tax and school finance system, then proposing necessary changes. In the following pages, the Commission reports its findings and the facts upon which conclusions were based, turning then to the question of what must be done. It is important to keep in mind the great deal which deserves praise without ignoring the call for help which the Commission has heard. There is a job to be done, significant changes to be made, and the agenda for action is urgent if we are to preserve the benefits of the good already accomplished.

Weighing the serious problems inherent in the current school finance system, and keeping in mind those qualities which we prize in our current school system, the Commission reviewed many alternatives in seeking the best possible response to Connecticut's particular needs. Although many states appear to be leaning toward full state assumption of educational costs, the Commission put heavy emphasis on local responsibility and diversity, and careful study indicated that a local option system in Connecticut could serve that end even while solving the problems of the existing school finance system.

For these reasons, therefore, the Commission

recommends a detailed program to install a new local option system of school finance by the property tax. The system proposed would permit all towns to continue to choose their own property tax rates and school expenditure level while at the same time it would (1) enable those towns with tax rates far above the State average to substantially reduce property tax rates for school finance and permit those towns now spending much less than the State average to raise substantially more funds for education; and (2) achieve, in time, equal opportunity in all towns for school financing by making the relationship between school tax rates and school funds substantially the same in all towns. This new system would be phased in over time by using increases in property tax revenues at current mill rates for equalization; that device insures that no town in the State need increase school tax rates to maintain current spending levels with, in fact, a modest increase each year. Further, a bonus is granted each town for certain groups of children who need special educational attention in order to assure that an automatic mechanism makes sufficient funds available to school districts with larger numbers of children who require costly extra services. **Finally, the Commission recommends the use of $20 million per year from the General Fund to assure that the goals of the new system are substantially achieved within 10 years.**

History of School Financing in Connecticut

The early settlers of Connecticut towns indicated a strong desire to establish schools that would enable the citizens to read and interpret the Bible. A serious interest in education is evident from the early records of these settlements and codes of the colony, which mandated the establishment of schools for the citizens of the towns.

The Connecticut Colony code adopted in 1650 required that each town with 50 families establish a school with one member of that town designated to instruct the students. New Haven Colony enacted its code in 1655. Both codes were in effect for approximately 150 years. The minimum number of families in each town requiring a school was later reduced from 50 to 30.[1]

The Connecticut Colony code also authorized each town with 100 families to set up a "grammar school" in order to provide students with enough education to enter the university.[2] Teachers for these schools were paid through town taxes or tuition charges. Then in 1690 the General Assembly made grammar schools public institutions and provided that the State pay one-half the teachers' salaries.[3]

In 1700 the State declared a local tax of 40 shillings for each thousand pounds of property that was declared taxable.[4]

From the sale of the lands which are now towns in western Connecticut, the State in 1733 established a school fund, probably the first permanent school fund in America,[5] with the proceeds from land sales going toward the schools. As new towns came into being and wanted to share in the funds, the money available from this source became inadequate.

As a result of the Queen Anne's War and the French and Indian War, the tax for schools was decreased in 1748 from 40 shillings to 10 shillings. The tax was raised back to 40 shillings in 1767.[6]

Additional funds became available when in 1795 Connecticut sold the "Western Reserve," a portion of the western land then still owned by Connecticut under the charter given by Charles II in 1662. This fund had grown to more than $2,000,000 by 1823, providing the main support for public schools for over half a century and almost the entire support from 1821 to 1854.[7]

This period of early Connecticut experiment with full State funding of education produced (according to Ames) "carelessness and indifference in all matters pertaining to education."[8]

Connecticut's standards of education at the end of the 1700's included the following:

1. All children should be given an opportunity to learn to read.
2. Schools should be maintained for six months in towns with 30 families.
3. Schools should be supported jointly by the town and parents — through local property taxes and by rate bills or tuition charges to the parents.[9]

The Constitution of 1818 ended any remaining control of the church over schools and included the provisions of Article 8 which are today the only sections of the State Constitution relating to education.

By 1818 the schools were under the direction of "school societies" which were an outgrowth of the early ecclesiastical societies. The school society was a geographical area comprised of either a town, several towns, or a part of a town. In the latter part of the 18th century the school societies were given authority to divide into school districts which were declared in 1839 to be "bodies corporate" with almost complete authority over the schools, including the right to tax the property and polls within the district for the support of the schools.

In 1854 the school tax was restored and each town required to raise a sum equal to one cent on the dollar of its grand list, the amount to be distributed to the several school societies of the town. (The proceeds of the fund were first distributed on the basis of the number of children between four and sixteen years of age.)

In 1856 school societies were abolished and the towns took over the management of the public schools. The required tax that was to be levied by each town on the grand list was gradually increased with changing educational requirements until 1869 when the towns were required not to levy a certain mill rate, but rather to levy a tax that would provide the required revenue to maintain thirty weeks of school.

Acts passed in 1865 and 1866 by the General Assembly provided for the consolidation of school districts and control of schools by the town under a board of educators or town school committee.

In 1871, for the first time, funds were taken from the State's General Fund and made available to the schools. The first State grant was 50 cents per child, 4 to 16 years of age.[10]

In 1897 income from the School Fund was paid directly into the State's General Fund and thereafter the School Fund ceased to be a factor in school finance.

Connecticut's first effort at equalization came in 1903, when the grant to the town was made on the basis of ability and effort as indicated by local property valuation and tax levies. Towns having less than $500,000 valuation and collecting a four mill school tax received a supplementary State grant to insure $25 per pupil expenditure for teachers' salaries. This plan was modified in 1911, but in 1917 the mandatory local school tax was abandoned and State payments were made strictly on the basis of student attendance.

From 1917 to 1947 the State grants were based upon classifications designed to give more assistance to small towns. In 1947 a new system based upon a per pupil sliding scale was established requiring towns to provide a minimum program in order to qualify. The sliding scale formula was constantly adjusted by the Legislature under a system designed to pay higher amounts for the first 100 pupils and decreasing amounts thereafter.

The minimum program was discontinued after 1963, and towns were no longer required to spend a certain sum for each pupil in order to qualify for their full portion of state aid.[11]

Our current financing system, discussed in more detail below, derives approximately one-third of the cost of current education from the State, mainly in the form of flat per student grants, some in special educational grants, categorical grants, and a program for disadvantaged children (SADC). The balance of the needed revenue is raised by the local property tax.

While generally relying mainly on the property tax levied at the local level to finance public education, Connecticut has at one time or another tried some variant of many possible alternatives currently being considered, including full State funding and a limited equalization program with payment from general funds supplementing the efforts of the towns. Whatever the problems and inequities of our present system our history demonstrates flexibility and adaptability in meeting the demands of changing educational concepts and needs. Our current system is not the only way to finance education — as our own State history shows — and our experience demonstrates the willingness of our State to change our system when and if the structure needs reform. Our tradition is concern for education, but we are not bound by any single approach.

Constitutional Issues – Recent Court Decisions and the Connecticut Constitution

Connecticut has one of the oldest school systems in the country, and a long history of programs directed toward providing a free quality education in the public schools. Although numerous types of finance programs have been tried, Connecticut now relies mainly on the property tax levied by the towns to raise the bulk of the revenue needed to finance its public school system. All but one of the states use a similar method of local property taxes as the main source of school support, with state aid programs of various types added to local resources.

Cases have been filed in many State and Federal courts raising the question of whether these existing systems of financing public schools are legal and equitable. A discussion of the issues raised in two of these cases provides a useful background for an examination of our own system of school finance here in Connecticut.

The *Rodriguez* Decision in Texas

The U.S. Supreme Court will consider in the coming term *Demetrio P. Rodriguez et al.* v. *San Antonio Independent School District et al.*[12] decided by a special three-judge panel of the United District Court for the Western District of Texas in December of 1971. It was held in this District Court decision that the current system of financing public education in Texas discriminates on the basis of wealth by permitting citizens of affluent districts to provide a higher quality education for their children, while paying lower taxes. The court found that this discrimination was a denial of equal protection of the laws under the Fourteenth Amendment of the U.S. Constitution by operation of the Texas constitution and those sections of the Texas Education Code relating to the financing of education.

Approximately 10% of the overall public school expenditure in Texas is contributed by the Federal government. The remaining revenue needed to operate the schools comes from two State funds, "The Available School Fund" ($296 million allocated on a per student basis as determined by average daily attendance) and a minimum foundation program (in excess of one billion dollars, financed 80% from State revenues and the balance apportioned to the individual school districts). The local school districts rely upon local property taxes to provide their share of the minimum foundation program, debt service for capital expenditures, and to finance all other expenditures above the State minimum.

The Texas Federal court found that under this system, in which education is a "function of the property tax," there were districts with property value per pupil in excess of $100,000 and poorer districts with less than $10,000 per pupil, representing an equalized tax rate (tax per $100 of property value) for the "rich" districts of 31 cents and 70 cents for the "poor" districts. Futhermore, the low rates for the rich districts yielded $585 per pupil while the high rate for the poor districts yielded only $60 per pupil. The rich districts have the highest median family income and the lowest percentage of minority children, while the poor property districts are poor in income and predominantly minority in composition.

The court found that the classification system employed in Texas involved a "fundamental interest" (education) and was based upon wealth, and found no compelling state interest to justify such classification.

Having found that the current system of financing discriminates on the basis of wealth by permitting citizens of affluent districts to provide a higher quality of education while paying lower taxes, the court left it to the defendants and the state legislature to devise a new form of financing public education which does not make the quality of public education a function of wealth other than the wealth of the state as a whole. The mandatory injunction was stayed for two years in order to provide an opportunity to comply with the court's order. The court retained jurisdiction over the case.

The *Serrano* Decision In California

The *Rodriguez* decision was handed down only a few months after *Serrano* v. *Priest*,[13] a 6-1 decision of the California Supreme Court. In this case, too, there was a finding that the state (California) method of financing public school education was in violation of the equal protection clause of the U.S. Constitution.

In examining the public school financing sys-

tem of the state, the court noted that by far the major source of revenue is the local property tax. The amount that can be raised is dependent upon the tax base — the assessed valuation of the property within a district. An example of the range within the State in a given year was the assessed valuation per unit of average daily attendance of elementary school children ranging from a low of $103 to a peak of $952,156, a ratio of 1 to 10,000. This range of assessed valuation, together with the willingness of particular school district residents to tax themselves, determined the amount available from locally raised funds, the main source of revenue in that state. The inequity, however, again came in the fact that some districts taxed at far higher rates yet still fell far below in funds available for education.

The State of California contributes aid to the districts in the form of "basic state aid", a flat grant per pupil, plus "equalization aid" and "supplemental aid." The court found that although the latter two programs "tempered the disparity which results from the vast variations in real property values, there remained wide differentials in the revenue available to individual districts, and consequently in the level of education expenditure."[14]

The main thrust of the plaintiff's argument was that the California public school financing scheme violates the equal protection clause of the 14th Amendment of the U.S. Constitution. In other cases, the U.S. Supreme Court has upheld legislative classification if a statute bears some rational relationship to a conceivable state purpose, subject to two main exceptions to this general rule:

"In cases involving 'suspect classifications' or touching on 'fundamental interests' the court has adopted an attitude of active and critical analysis, subjecting the classification to strict scrutiny."[15] In these cases the State has the burden of showing not only that it has a compelling interest which justifies the law, but that the distinctions drawn by the law are necessary to further its purpose.

The California court, after a lengthy analysis, found that the California school financing system classifies on the basis of wealth of a district and its residents (wealth being one of the suspect classifications under a funding scheme mandated in every detail by the California constitution and statutes.[16] The court found also that the California fiscal system has a direct and significant impact upon a fundamental interest, namely education. Finally, in applying the strict scrutiny standard, the court found that the financing system as presently constituted is not necessary to the attainment of any compelling state interest.

The court in reaching its decision stated, "By our holding today we further the cherished idea of American education that in a democratic society free public schools shall make available to all children equally the abundant gifts and learning."[17]

Judicial Basis for School Finance Reform

An important point in both *Serrano* and *Rodriguez* is the characterization of education as a fundamental state interest. The two courts regard the rule that wealth classifications are illegal as applicable only to fundamental state interests, and both opinions refer to the long history of judicial expression which has distinguished education from other government services. This quality—repeated court treatment of education as different than other government services—began with *Brown v. Board of Education* (1954) 347 U.S. 483. The *Serrano* and *Rodriguez* courts each quoted a unanimous U.S. Supreme Court in *Brown:*

> "Today, education is perhaps the most important function of state and local governments. . . . In these days, it is doubtful that any child may reasonably be expected to succeed in life if he is denied the opportunity of an education. Such an opportunity, where the state has undertaken to provide it, is a right which must be made available to all on equal terms."[18]

This kind of treatment for public schools in the courts led the *Serrano* panel to classify education with voting rights and criminal rights as fundamental interests not to be subjected to wealth discrimination (except in the case of a compelling state interest); the *Rodriguez* court also applied the description "fundamental state interest" in a shorter discussion. In both cases, education was singled out from other government services where no such court history has been established. This is the point which distinguishes cases involving unequal schools from cases which might complain about unequal sewers, road paving, or local government services which the courts have never considered essential or fundamental interests of the state as in education.

Both *Serrano* and *Rodriguez* distinguish *McInnis v. Shapiro*, 293 F. Supp. 327, (aff'd, mem.

sub. nom. 394 U.S. 322), the only important previous case in which the U.S. Supreme Court has addressed the issues of school finance. In *McInnis*, the Supreme Court refused to hear a complaint concerned with alleged school finance inequity which turned on issues of appropriate spending levels. But *Rodriguez* articulated the difference in recent cases:

> "[The] plaintiffs have not advocated that educational expenditures be equal for each child. Rather they have recommended the application of the principle of 'fiscal neutrality.' Briefly summarized, this standard requires that the quality of public education may not be a function of wealth, other than the wealth of the state as a whole."[19]

In light of the new issues posed to the U.S. Supreme Court by these decisions, it appears likely that the nation's highest court will, at the very least, rule on the merits of this newly-raised legal problem. In the event the decision is affirmed, it would outlaw the existing school finance systems in two major states, and most systems in use throughout the nation, nearly all of which are similar in concept and effect.

Other Developments in School Finance Reform

The *Serrano* and *Rodriguez* cases have had a tremendous impact throughout the country. Similar suits are now pending in at least 37 states, including Connecticut. Three recent studies of State taxation as it affects public school education have commented upon the courts' findings in *Serrano* and related cases in presenting proposals for reform.

The New Jersey Tax Policy Committee *Report's* recommendations, while first developed prior to, and independent of, all recent judicial decisions, referred to *Serrano* in its report and concluded that:

> "Equality of educational opportunity under state and federal constitutions as presently interpreted by the courts involves two separate issues. (1) The equality of property tax burden to provide financial support for the state responsibility in education now required by the weight of authority of those Courts which have passed on the issue. (2) Such equality of educational opportunity as may be implied in equal expenditures per pupil. This has not yet been recognized by the courts as a statutory requirement, so long as the funds provided by the state support a 'thorough and efficient' education, and the constitutionality of permitting any expenditures above that level in the discretion of the local school board has not yet been determined." (Page 39 of Report 3).

The New York State Commission on the Quality, Cost and Financing of Elementary and Secondary Education, at a note in its report (page 2.2), states that the *Serrano* decision "seems likely to be of landmark significance" in the tentative conclusion that "the states' system of public school finance denies children the equal protection guaranteed under the Fourteenth Amendment, because it produces substantial disparities among school districts in the amount of revenue available for education." While pointing out that the decision has no immediate legal impact outside California, "if its analysis is substantially correct, the public school finance systems in the great preponderance of states, including New York, are unconstitutional as well."

A staff report to the California Senate, entitled "Final Report to the Senate Select Committee on School District Finance," devotes a chapter to the issues raised by the *Serrano* decision, the legal principles involved, and the alternative methods of finance available to a state in responding to *Serrano*.

There has also been some critical comment on the *Serrano* decision and some of its underlying assumptions.[20] The most obvious such assumption is that there is a proven relationship between financial input and educational output, a subject we have treated below. Whatever the legal merits, however, the wrongs are evident and a tide of reform has begun. Quite possibly the U. S. Supreme Court will require changes by its decision on *Rodriguez* (expected in the spring of 1973). Whether or not that happens, however, the lower court decisions have highlighted the need for action.

Recommendations from the above studies and most others to date have suggested reliance on a reformed property tax for school finance, at least in large part. In formulating such programs, the studies emphasize what *Serrano* does not require. First, the property tax is not abolished, nor is a "local" tax necessarily prohibited. A uniform state-wide property tax for school or another purpose would be perfectly acceptable, or a local property tax could be approved if the tax system were restructured to give all localities equal fund-raising capability, rather than permitting current variation in result due to local wealth. Second, the court cases do not require equality of expen-

diture; the states must assure all communities equal fund-raising opportunity, but local choice in the context of equal ability to raise funds is not prohibited. Thirdly, the courts have not determined that equal opportunity be achieved immediately, nor that absolute equality of spending opportunity need apply in every case: the *Serrano* court recognized that the Constitutional standard must be weighed against any "compelling state interest" in view of the specific facts in any particular state. Although the California court found no state interest to justify the current inequalities in the California system, the California court did not, and other courts are not likely to, deny that a state may tolerate inequality for a period if it has installed a system bringing equality by stages over some reasonable period of time, nor that a state may permit some variation in opportunity to spend on schools for the sake of a particular state interest, such as a desire to aid particular categories of children (e.g., handicapped, disadvantaged or others) or fairness where cost of living or other factors differ across the state.

Legal Issues of Connecticut School Finance

Before examining the issue of whether the Connecticut school finance system is as inequitable as the systems held unconstitutional in California and Texas, a short review of certain legal aspects of the Connecticut educational structure is in order. Connecticut has not only recognized elementary and secondary education as an "essential state interest" by State Constitutional emphasis, but the Connecticut legislature has further interpreted and applied this mandate by statute which decrees that every child should have an "equal opportunity to receive a suitable program of educational experience."

The Connecticut Constitution provides in Article 8, Section 1, treating matters that pertain to education, that:

> "There shall always be free public elementary and secondary schools in the State. The General Assembly shall implement this principle by appropriate legislation."

This Constitutional provision parallels other State Constitutional wording that virtually all states have kept in some similar form ever since their first constitution. It is on this basis that the courts have recognized education as an "essential state interest" (which is a key point in the analysis that the present system of school finance is unconstitutional). The provision provides the official basis for treatment of public education as a very special and unique concern.

A recent enactment in a long history of legislation adopted by the General Assembly on the subject of education ties the above constitutional provisions to another constitutional principle in a further enunciation of the educational interests of the State. Article I, Section 1, proclaims that, "All men when they form a social compact, are equal in right." Section 10-4a, General Statutes of Connecticut, 1958 Revision (1969 Public Act No. 690, Section 1) provides in part that:

> "The educational interests of the State shall include, but not be limited to, the concern of the State (1) that each child shall have for the period prescribed in the General Statutes equal opportunity to receive a suitable program of educational experience (2) that each school district shall finance at a reasonable level an educational program designed to achieve this end."

The Legislature, then, has decreed that: (1) Each child shall have an equal opportunity to receive a suitable program of educational experience, and (2) each school district shall finance and devise an educational program designed to achieve this end. Put another way, the State has mandated that equal educational opportunity is to be provided for each child of the State and that this is to be achieved through programs devised and financed by the separate school districts.

Whether a "suitable program" of school financing can be provided is in part determined by the "wealth" available to support and finance such a program. Under our present system of school financing, in which revenue is mainly raised by a tax levied on the property base of the town, it is apparent that the greater the disparity between the wealth of school districts the more difficult it will be for some towns to meet the "equal opportunity" requirement for its children. Indeed, if a certain minimum level of expenditure is necessary to provide a "suitable program of educational experience," it may be impossible for some towns to carry out such a mandate under the present system of financing schools. Detailed analysis of wealth differentials among towns will follow later in this part. The point to remember here is that national court decisions (when related to our own State Constitutional mandate) *and* the Connecticut Constitution itself, as interpreted by legislative statement, require equal opportunity throughout the State.

Public School Finance in Connecticut Today

Financing of public school education in Connecticut is shared, albeit in highly unequal proportions, by the three levels of government: local, state, and federal. This combined effort resulted in a total expenditure of $757,987,172 during the school year 1970-71 for our public elementary and secondary school systems.

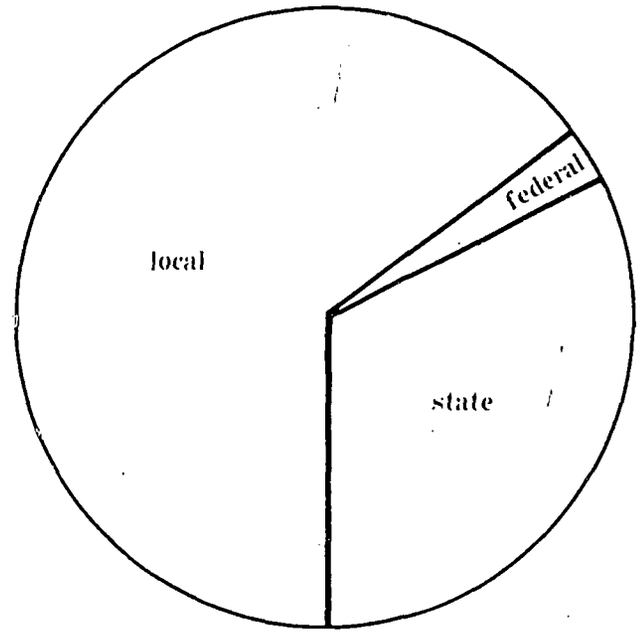
Total Net Current Expenses (Operating Expenses), which accounted for the greatest portion of the total, equalled $594,014,517. The remaining amount of $163,972,655 was used for the purpose of Debt Service (principal and interest on bonds and notes for school building construction), Equipment and Transportation. Net Current Expenditures are usually cited as the fairest basis for comparing districts and as the best financial measure of educational resources available.

Net Current Expenditures have grown rapidly, from approximately $183 million in 1960-61 to $594 million ten years later. In part, this 300% increase was due to a growing school enrollment (over 40%) but per pupil costs also rose from $381 to $894 in 10 years. The taxpayers and parents of Connecticut have sought better education, which is a universal trend in our time and in a society where increasing affluence permits us to invest more in education, and the funds have been raised for this purpose.

Table B-1 shows the contributions of Federal, State and local governments to Net Current Expense items over the past 30 years. An inspection of the table indicates that local government has contributed by far the greatest share of the dollars for education, with State funds a somewhat distant second. Only in recent years (after 1953) has the Federal sector begun to aid the public school system with money for special programs. Even in 1971, Federal funds accounted for only 3.2% of Net Current Expenses, and much of that money was, as will be seen, earmarked for special programs and uses in response to particular national problems and goals.

Chart B-1 presents the breakdown of total expenses (both operating expenditures and capital and transportation costs) for the school year 1970-71, by source.[21]

CHART B-1: School Expenditures by Source, 1970-71



Source	Total Expenses	% of Total
Local	$485,374,011	64.0%
State	252,970,802	33.4%
Federal	19,642,359	2.6%
Total	$757,987,172	100.0%

Local Funds

Local governments in Connecticut rely almost exclusively upon the property tax as the means of taxing its citizenry. This is because local governments are generally unable to impose other taxes to generate meaningful sums of revenue. In 1970, all but $5.1 million of the $728.2 million received from local taxes was derived from the property tax.[22]

Table B-2 depicts by major category the dollar expenditure and revenue totals of Connecticut local governments for the years 1961, 1965, and 1970, with percentage increases for those periods. In 1970 the property tax accounted for 65.4% of total General Revenue. The balance was received by towns from miscellaneous charges and revenues of other government agencies. For the same year total school expenditures accounted for 46.6% of total General Revenues.

Table B-1: Summary of Net Current Expenses By Level of Government in Connecticut, 1943-44 Through 1970-71

School Year	Pupils (Resident ADM)	Amount					Amount Per Pupil				Percentage Distribution		
		Total	Local Funds	State Funds		Federal Funds	Total	Local Funds	State Funds	Federal Funds	Local Funds	State Funds	Federal Funds
				General Aid	Special								
1943-44	252,883†	31,294,305*†	$ 29,821,819*†	$ 1,472,468	†	0	$123.75*†	$117.93*†	$ 5.82†	0	95.3%	4.7%	0.0%
1945-46	248,135†	34,440,507*†	31,715,769*†	2,824,738	†	0	139.20*†	127.82*†	11.38†	0	91.8	8.2	0.0
1947-48	252,422†	47,922,309*†	37,738,833*†	10,253,476	†	0	187.89*†	147.75*†	40.14†	0	78.6	21.4	0.0
1953-54	340,753	86,723,119*	70,979,128*	13,885,798	$ 541.943	$ 1,316,250	254.50*	208.30*	42.34	$ 3.86	81.8	16.6	1.1
1955-56	380,019	109,356,344*	83,922,644*	43,531,130	730,430	1,172,140	287.31*	220.49*	63.74	3.08	76.7	22.2	1.1
1956-57	400,716	123,853,840*	97,213,302*	24,486,360	821,042	1,333,136	309.08*	242.60*	63.16	3.33	78.5	20.4	1.1
1957-58	422,156	136,055,420	98,548,308	35,263,506	1,149,761	1,096,865	322.29	233.43	86.26	2.60	72.4	26.8	0.8
1958-59	443,436	151,998,768	112,266,967	36,936,764	1,288,938	1,506,099	342.77	253.17	86.20	3.40	73.9	25.1	1.0
1959-60	461,968	166,544,039	124,966,990	38,610,778	1,526,917	1,739,354	361.16	270.51	86.88	3.77	75.0	24.0	1.0
1960-61	479,773	182,791,999	138,911,931	40,047,232	1,684,434	2,148,402	381.00	289.54	86.98	4.48	76.0	22.8	1.2
1961-62	500,918	201,888,449	144,744,624	52,819,727	2,009,452	2,314,646	403.04	288.96	109.46	4.62	71.7	27.2	1.1
1962-63	523,143	221,667,879	161,512,333	54,851,091	2,657,801	2,666,654	423.76	308.73	109.93	5.10	72.9	25.9	1.2
1963-64	543,650	244,500,938	178,838,252	60,183,699	2,783,605	2,695,382	449.74	328.96	115.82	4.96	73.1	25.8	1.1
1964-65	564,966	267,931,073	198,664,991	62,211,043	3,280,872	3,774,167	474.24	351.64	115.92	6.68	74.2	24.4	1.4
1965-66	584,263	300,454,257	205,851,734	75,374,265	8,122,605	11,105,653	514.24	352.32	142.91	19.01	68.5	27.8	3.7
1966-67	600,001	337,767,880	233,318,089	77,714,355	10,418,276	16,317,160	562.95	388.86	146.59	27.20	69.1	26.1	4.8
1967-68	619,583	389,219,719	266,946,709	94,963,760	12,515,998	14,793,312	628.20	430.85	173.47	23.88	68.6	27.6	3.8
1968-69	637,201	448,299,822	318,195,740	98,217,769	16,921,945	14,964,368	703.55	499.37	180.70	23.48	71.0	25.7	3.3
1969-70	657,266	517,769,892	350,427,655	127,481,598	20,757,722	19,102,917	787.76	533.16	225.54	29.06	67.7	28.6	3.7
1970-71	664,736	594,014,517	418,006,474	131,608,581	25,217,275	19,132,187	893.61	628.83	235.92	28.86	70.4	26.4	3.2

* Data prior to 1957-58 include interest on school bonds.

† Data for the school years prior to 1953-54 are only for pupils entitled to the State's general aid grant.

Source: Connecticut Public Expenditure Council, *Local Public School Expenditures and State Aid in Connecticut* (January, 1972), pp. 2-3.

TABLE B-2: Summary of Connecticut Local Government Expenditures and Revenues, 1961-70

(In Millions)

	1961	1965	1961-65	1970	1965-70	1961-70
TOTAL GENERAL EXPENDITURES	$423.7	$566.8	33.8%	$ 983.0	73.4%	132.0%
Education	192.1	279.1	45.3	515.3	84.6	168.3
Public Works & Parks	54.7	64.6	18.1	106.5	64.9	94.7
Public Safety	56.5	62.7	11.0	98.2	56.6	73.8
Administration	33.3	43.7	31.2	83.9	92.0	152.0
All Other	87.1	116.7	34.0	179.1	53.5	105.6
TOTAL GENERAL REVENUE	$452.9	$625.6	38.1%	$1,105.4	76.7%	144.1%
Taxes	331.0	434.0	31.1	728.2	67.8	120.0
From Other Agencies:						
State and Other	66.3	99.8	50.5	224.2	124.7	238.2
Federal	9.8	27.0	175.5	41.0	51.9	318.4
Charges for Current Services & Miscellaneous	45.8	64.8	41.5	112.0	72.8	144.5

Source: *Governmental Finances*, annual publication of U.S. Bureau of the Census.

Note: Individual items may not add to totals due to rounding.

Table B-3 presents school operating totals (Net Current Expenditures) for the 169 towns during the school year 1970-71, ordered from highest to lowest per pupil expenditure.

The average Net Current Expenditure per pupil for the 169 towns in Connecticut during the school year 1970-71 was $893.61. However, a wide disparity exists between the towns at the top of the list compared to those at the bottom. The top five towns of Darien, Westport, New Canaan, Hartford, and Greenwich spent an average of $1,289.73 in Net Current Expense per pupil which was almost 2¼ times that spent by the five towns at the bottom end of the list. These five towns of North Stonington, Ashford, Canterbury, Sterling, and Griswold spent, on the average, $578.12 in Net Current Expense per pupil, approximately 65% of the State average.

State Government

State aid in support of public school education is governed by Title 10 of the Connecticut General Statutes. Financial assistance to the 169 school towns is provided by the State grant system, under the supervision of the Department of Education. Allocation of funds to towns for education is directed in three particular areas: General Aid, Funds for New Schools and Transportation, and Special Aid.

General Aid (State Aid to Towns) is in the form of a flat grant distributed to the towns according to student enrollment (average daily membership, or ADM) of the towns. In school year 1970-71, this figure was $200 per student; it has been increased to $215 per student for school year 1972-73. The flat grant represents more than half of all State assistance, and it is widely recognized today that a State flat grant does not grapple effectively with the problems of unequal expenditure.

Funds for new school construction and transportation is the second area in which the State assists in public school financing. These grants are made available under several programs to assist school districts in new school building projects and in meeting transportation expenses. Half of school construction costs and half of transportation expenditures are paid by the State under this large program. The purpose of the grants, however, is not equalization, nor is that the effect. These grants assist towns hit with substantial need for new school facilities due to population growth, as well as rural towns where transportation costs are high. In terms of equali-

TABLE B-3: Towns Ranked According to Per Pupil Expenses (School Year 1970-71)

Rank	Town	NET CURRENT EXPENSES (Operating Expenses) Amount
1	Darien	$1,468.68
2	Westport	1,315.15
3	New Canaan	1,304.27
4	Hartford	1,184.09
5	Greenwich	1,176.47
6	Wilton	1,160.51
7	West Hartford	1,139.89
8	Canaan	1,133.85
9	Weston	1,123.05
10	Sharon	1,097.03
11	New Haven	1,094.56
12	Bridgewater*	1,090.74
	Roxbury*	1,090.74
	Washington*	1,090.74
15	Easton	1,070.73
16	Stamford	1,067.18
17	East Hartford	1,050.26
18	Hamden	1,043.28
19	North Haven	1,034.24
20	Redding	1,028.72
21	Bloomfield	1,022.98
22	Cornwall	1,020.97
23	New London	1,015.18
24	Fairfield	1,001.98
25	Goshen*	999.91
	Morris*	999.91
	Warren*	999.91
28	Rocky Hill	996.42
29	Farmington	982.76
30	Ridgefield	981.97
31	Avon	975.92
32	Stratford	970.28
33	Litchfield	960.18
34	Kent	954.76
35	Newington	949.42
36	Bethel	945.22
37	Essex	943.93
38	Columbia	940.09
39	Wethersfield	933.82
40	North Canaan	932.61
41	Woodbridge	930.05
42	Norwalk	929.16
43	Mansfield	928.65
44	Lyme	920.86
45	Sherman	918.92
46	Danbury	911.59
47	Orange	908.29
48	Salisbury	907.46
49	Ellington	899.63
50	Bolton	895.79
51	Newtown	895.20
52	Old Saybrook	891.86
53	Waterbury	887.14
54	Manchester	873.23
55	Old Lyme	873.08
56	Trumbull	872.27
57	Middletown	868.75
58	Bethany	867.93
59	East Granby	858.92
60	Durham*	856.53
	Middlefield*	856.53
62	Colebrook	855.41
63	New Hartford	854.92
64	Deep River	854.66
65	Middlebury*	854.55
	Southbury*	854.55
67	Scotland	853.72
68	Cheshire	850.90
69	Bethlehem*	850.64
	Woodbury*	850.64
71	Hampton	844.21
72	Glastonbury	843.23
73	West Haven	841.73
74	Windsor	839.53
75	Windham	839.52
76	Suffield	836.74
77	Simsbury	834.01
78	East Windsor	833.43
79	Berlin	832.70
80	Andover	831.90
81	Waterford	831.44
82	Norfolk	831.30
83	South Windsor	829.35
84	Milford	827.73
85	Groton	827.67
86	Chester	826.55
87	Plainville	826.29
88	Eastford	824.13
89	Portland	822.82
90	Stonington	822.42
91	Canton	820.54
92	Guilford	820.51
93	East Haddam	817.81
94	Brookfield	816.36
95	Bridgeport	814.23
96	Wallingford	812.89
97	New Milford	808.87
98	Branford	807.26
99	Chaplin	806.85
100	Monroe	805.52
101	New Britain	804.66
102	Vernon	803.34
103	Madison	800.66
104	East Lyme	797.29
105	East Hampton	795.69
106	Barkhamsted	793.39
107	Granby	793.22
108	Hartland	792.85
109	Willington	789.45
110	Marlborough	778.56
111	Westbrook	777.85
112	Norwich	776.17
113	Colchester	775.91
114	Haddam	772.31
115	Coventry	769.28
116	Somers	767.12
117	Stafford	763.77
118	Windsor Locks	762.23
119	Woodstock	761.85
120	Harwinton	757.86
121	Winchester	754.74
122	Torrington	752.79
123	New Fairfield	752.35
124	Hebron	749.74
125	Ansonia	747.74
126	Watertown	745.06
127	Meriden	744.12
128	Union	741.52
129	Cromwell	737.42
130	Burlington	736.01
131	Salem	734.72
132	Montville	732.03
133	Bristol	730.00
134	Derby	728.76
135	Preston	724.79
136	Killingly	717.72
137	Southington	717.45
138	East Haven	713.42
139	Brooklyn	709.82
140	Tolland	709.35
141	Putnam	706.30
142	Pomfret	705.88
143	Bozrah	701.62
144	Thompson	699.24
145	Naugatuck	697.77
146	Ledyard	696.80
147	Clinton	695.39
148	Killingworth	684.03
149	Thomaston	683.69
150	North Branford	683.51
151	Franklin	670.97
152	Sprague	658.87
153	Seymour	657.77
154	Shelton	654.29
155	Enfield	652.27
156	Plymouth	651.39
157	Lebanon	648.50
158	Oxford	647.75
159	Beacon Falls*	640.23
	Prospect*	640.23
161	Voluntown	633.65
162	Wolcott	632.07
163	Plainfield	628.18
164	Lisbon	624.17
165	North Stonington	623.16
166	Ashford	616.23
167	Canterbury	557.70
168	Sterling	555.50
169	Griswold	538.02
	State-wide Average	893.61

Source: Local Public School Expenses and State Aid in Connecticut, Connecticut Public Expenditure Council, January, 1972, pp. 30-31.

*Regional school districts.

zation, there is no distinction made as to whether a school district receiving this aid is a high-expenditure or low-expenditure town, and the State often pays the most to the highest-expenditure towns for expensive new schools.

Special Aid to Towns includes numerous categorical programs that are dependent upon particular need; the variety of these range from programs for the disadvantaged and occupational training programs to special training for the handicapped and the gifted child as well. Requirements for eligibility vary among these pro-

grams, as does financial assistance. About 10% of the State aid total is accounted for by these programs. Although many of these programs serve some disadvantaged individuals, this is not a large source of funds for the considerable extra costs of educating many disadvantaged individuals, and these programs do not permit much equalization among the towns.

The breakdown of State aid figures[23] for public school financing for the 1970-71 school year were:

Operating Expenses:		
General aid	$131,608,581	52.0%
Special aid	25,217,275	10.0%
New Schools and Transportation:	96,144,946	38.0%
Total State Aid to Public Schools	$252,970,802	100.0%

Overall, existing State aid to local school systems is both substantial and well-designed for particular purposes: general support, help for growing towns, and incentives for many desirable special programs. But these programs do not meet the problems raised here. Existing programs should be continued or, at least, evaluated on their own merits in light of their own purposes, apart and separate from the issues raised in these pages.

Federal Aid

Participation by the Federal government in the financing of public schools is relatively minor. In the 1970-71 school year, Federal funds represented only 2.6% of total public school expenses for the 169 towns. (All of this aid is for operating expense, and the total represents 3.2% of Net Current Expenses.) Although, on the average, this figure is not very significant, it is worthwhile to mention that, taken as a percent of total expenses, the range for the individual towns was considerable. In ten towns no Federal participation was evident, while in the town of Groton Federal assistance represented 21% of total expenses.

Federal aid to the towns in the form of grants for particular programs is similar to special aid programs by the State. That is, these programs are designed for particular policy purposes other than equalization and they serve largely those purposes alone, with little or no equalization effect. These categorical grants, which number forty-five, also include aid for higher education.[24]

At the present time there are additional funds accruing to the State and local governments from revenue-sharing proposals being studied by Congress. Some portion of whatever Connecticut receives could be used to meet public school financing. However, when compared to the total expenditure of $758 million in school year 1970-71, these receipts will not drastically affect the present financing picture. Even the very large amounts being suggested for new proposals during the next Administration are not only unlikely to materialize for at least several years, but it is very unlikely that such amounts would bring equality or substantially alter current finance patterns unless carefully designed to do so.

What's Wrong With Our System Now?

This section highlights what is basically wrong with Connecticut's system today: that the current system is grossly unfair to our taxpayers and inherently unequal for our students. The fundamental inequity of financing a State public school system by local property tax is that inequality of property values by town forces many towns to settle for low school expenditures, even while the taxpayers of those same towns face some of the highest tax rates in the State.

This problem can be seen by comparing two typical towns in Connecticut. Town A spends $1,000 per student from local property tax revenues and Town B spends $500 per student. Both towns also receive $300 per student of State and Federal aid, and both towns spend two-thirds of their local property tax revenues on education. But Town A — enjoying high expenditure for schools — imposes an adjusted tax rate of only 15 mills (on full current market value of all property) while Town B faces a tax rate of 30 mills, or twice as great, even to raise half as much for education. In short, many towns can tax far less and spend much more; and those less fortunate

towns can never catch up in school expenditure because taxes are already as high as homeowners can tolerate.

The inequity of the system can be seen vividly when two taxpayers of equal income, living in similar homes of equal value, are compared. A family in Town A pays a property tax bill of $600 per year, or 15 mills on a $40,000 home, and the children attend excellent schools reflecting expenditures of $1,300 per student. A family of equal means in Town B pays $1,200 per year in property taxes, or twice as much, and yet their children attend schools where only half as much local money is available and, even with State aid, school expenditures are only $900 per student.

This dual inequity — a family can pay more and get less for its children — is the fundamental issue of school finance. It has been explained above that such a system may be ruled illegal by the U.S. Supreme Court, and that such inherent inequity violates the spirit of the Connecticut Constitution and the laws which the legislature has passed under the State Constitution. Those are good reasons to act. It will be explained below that — even while school expenditures are not the only factor in quality education — such large differentials as are found in Connecticut cannot help but deny many children an opportunity equal to children in higher expenditure schools. That is good reason to act. Also addressed below is the effect of our current system on community development, giving a financial incentive for the most affluent to live in towns populated only by other affluent persons and giving all towns an incentive to keep out the poor. Those are also good reasons to act.

Before turning to other aspects of this problem, it is important to survey the scope of Connecticut's problem. The dramatic examples above, where one family paid twice as much in taxes yet saw only half as much becoming available for their children's education, is not rare. In some cases, the inequities are worse. Overall, significant inequities are apparent in comparing the large majority of towns.

Table B-4 shows the 20 towns in Connecticut where school expenditures are highest and the

TABLE B-4: School Expenditures and Effective School Tax Rate

20 Highest Expenditure TOWNS	Net Current School Expenditure (1970-1)	Effective School Tax Rate (Mills)
Darien	$1,469	14.3
Westport	1,315	12.2
New Canaan	1,304	12.7
Hartford	1,184	12.4
Greenwich	1,176	5.8
Wilton	1,161	16.3
West Hartford	1,140	12.6
Canaan	1,134	10.1
Weston	1,123	15.7
Sharon	1,097	12.9
New Haven	1,095	11.5
Bridgewater	1,091	12.9
Roxbury	1,091	9.2
Washington	1,091	13.1
Easton	1,071	12.6
Stamford	1,067	10.4
East Hartford	1,050	14.9
Hamden	1,043	12.0
North Haven	1,034	14.2
Redding	1,029	14.5
HIGH EXPENDITURE AVERAGE	$1,138	12.1

20 Lowest Expenditure TOWNS	Net Current School Expenditure (1970-1)	Effective School Tax Rate (Mills)
North Branford	$684	16.1
Franklin	671	11.1
Sprague	659	13.6
Seymour	658	13.6
Shelton	654	9.4
Enfield	652	18.2
Plymouth	651	14.0
Lebanon	649	15.2
Oxford	648	11.8
Beacon Falls	640	8.5
Prospect	640	13.7
Voluntown	634	16.0
Wolcott	632	18.7
Plainfield	628	15.7
Lisbon	624	17.0
North Stonington	623	31.8
Ashford	616	12.6
Canterbury	558	15.8
Sterling	556	20.5
Griswold	538	12.0
LOW EXPENDITURE AVERAGE	$ 621	15.0 Mills

TABLE B-5: School Expenditure and Tax Rate. 100 Towns Ranked by Tax Base

TOWN	1970-71 Per Pupil Net Current Expenditure	1971 Mill Rate (School Funds Only, On Full 1971 Market Value)
Greenwich	$1,176	5.8
Salisbury	907	7.9
Canaan	1,134	10.1
Cornwall	1,021	9.3
Middlebury	855	6.9
Lyme	921	8.7
Roxbury	1,091	9.2
Haddam	772	6.8
Westport	1,315	12.2
Darien	1,469	14.3
New Canaan	1,304	12.7
Stamford	1,067	10.4
Sherman	919	8.9
Essex	944	10.1
Old Saybrook	892	9.8
Middletown	869	8.5
West Hartford	1,140	12.6
Southbury	855	8.3
Westbrook	778	8.9
Easton	1,071	12.6
Berlin	833	9.2
Sharon	1,097	12.9
Hartford	1,184	12.4
Fairfield	1,002	10.8
Old Lyme	873	10.6
Stratford	764	10.4
Hamden	1,043	12.0
Kent	955	11.8
Bloomfield	1,023	12.7
New Haven	1,095	11.5
Rocky Hill	996	13.0
Wilton	1,161	16.3
Redding	1,029	14.5
Waterford	831	9.1
Branford	807	9.6
Groton	828	6.7
Bridgewater	1,091	12.9
Washington	1,091	13.1
Woodbridge	930	14.6
Weston	1,123	15.7
Farmington	983	12.6
Norwalk	929	11.5
Wethersfield	934	12.5
Orange	908	13.5
North Haven	1,034	14.2
Avon	976	13.7
New Britain	805	8.9
North Canaan	933	13.2
New Milford	809	11.7
Trumbull	872	11.8
Top 50 Towns Avg.	$ 989	11.1

TOWN	1970-71 Per Pupil Net Current Expenditure	1971 Mill Rate (School Funds Only, On Full 1971 Market Value)
Somers	$767	16.8
South Windsor	829	18.8
Middlefield	857	19.2
Sprague	659	13.6
Ashford	616	12.6
Seymour	6 8	13.6
Norwich	776	14.9
Monroe	806	17.9
East Hampton	796	17.8
Mansfield	929	20.9
Watertown	745	15.6
Harwinton	758	18.8
Granby	793	18.3
Burlington	736	19.4
North Branford	684	16.1
Lebanon	649	15.2
Bolton	896	21.2
Willington	789	19.5
Marlborough	779	28.0
Plymouth	651	14.0
Vernon	803	19.0
Stafford	764	17.4
Preston	725	18.5
Brooklyn	710	16.3
Thompson	699	15.5
Prospect	640	13.7
Ledyard	697	16.1
Ellington	900	23.6
Colchester	776	21.3
Durham	857	23.0
Hebron	750	22.9
Hampton	844	20.7
Pomfret	706	17.1
Andover	832	25.1
Voluntown	634	16.0
Griswold	538	12.0
Bristol	730	20.2
Plainfield	628	15.7
Enfield	652	18.3
East Haven	713	19.7
Scotland	854	25.3
Bozrah	702	18.9
Coventry	769	22.5
Lisbon	624	17.0
Wolcott	632	18.7
Tolland	709	24.8
Canterbury	558	15.8
Chaplin	807	32.5
Sterling	556	20.5
North Stonington	623	31.8
Last 50 Towns Avg.	$732	19.0

20 towns where expenditures are lowest. Next to each town is the "true" tax rate, adjusted official figures which reflect mill rates on full current market value of property and including only that portion of the tax rate which can be attributed to school expenditures. As can be seen, the very top town spends almost three times as much as the very bottom town ($1469 vs. $538) and yet the tax rate is only slightly greater. The top 10 as a group spent $1210 with a tax rate of 12.5 mills while the last 10 spent an average of $605, or exactly half as much, with a tax rate approximately 50% greater (17.4 mills). The top 20 and bottom 20 are equally far apart, as Table B-5 shows — all 20 at the top spend over $1000 and none of the last 20 spend over $700, yet the average school tax rate is 30% higher in the last 20 towns.

Another perspective on these tax rate and expenditure differences is the impossibility of equal spending by the currently low-expenditure towns. For example, the last 20 towns, now spending an average of $621 per student, would require an increase of $400 to draw near any of the top 20 towns. To raise another $400 per student from local property taxes, these towns would have to double their current school tax rates — an unrealistic alternative for most, since this would put any town with such a high rate at a real disadvantage in attracting business and industrial taxpayers. The choice of school expenditures, then, is now not a choice at all — some towns simply cannot raise as much as others by the property tax.

Table B-5 shows 100 selected towns ordered according to tax base per student. In this group, remarkable differences can be seen for well over half the towns in the State. The top 10 average $1066 in expenditure with a tax rate of 9.1 mills compared to $683 per student with a tax rate of 22.8 mills in the bottom 10 towns. The differential of school expenditure is $383; or over 50% more, with a tax rate less than half as great.

Taking the entire 100 towns shown in Table B-5, the differentials are still readily apparent. The top 50 towns spend $989 per student average while the last 50 towns average $732. Yet the top 50 enjoy a tax rate of 11.1 mills compared to 19.0 mills in the last 50 towns. Again, the inequity is clear — the top 50 towns spend $267 per student more while enjoying a tax rate just over half as great as the last 50. Furthermore, the last 50 towns would have to increase their taxes almost 10 mills on the average to raise enough local funds to match spending in the other towns — an unrealistic alternative, since that would mean a tax rate two-and-one-half times that of the top towns.

Measuring Inequality

As explained above, the basic problem in the existing school finance system is that a given tax rate produces very unequal amounts of money on a per pupil basis in various towns. As shown by examples some towns are able to spend two and almost three times as much per student as other towns even though the high expenditure towns enjoy tax rates one-half or even one-third as great as in the lower expenditure towns.

One way to summarize this problem, and a good standard to use in measuring alternatives, is the use of a "yield per mill per student" measure. The essence of the disparity among towns in terms of tax rates and per pupil expenditures is simply that some towns have much more property value per student and thus greater tax revenues per student at any given mill rate. This mathematical relationship, while not the entire problem, summarizes the basic flaw in the current system which leads to the other, broader problems previously explained in more detail.

The use of a "yield per mill per student" measure simply involves the following. By taking the total amount of property value (current market value of all property subject to the local property tax) in a given town and dividing that total by the number of students in the local school system, a measure called "property value per student" is derived. Property value per student, in turn, relates very simply to tax yield — that is, every $1,000 of taxable property value per student produces approximately $1 of school revenues per student for each mill of tax rate, meaning that $50,000 property value per student would provide approximately $50 per student for each mill in the tax rate. It then becomes a simple matter to mul-

tiply yield per mill per student times mill rate to determine how much money would be available on a per student basis. To take an example, a town with $50,000 property value per student would enjoy approximately $50 yield for every mill of the tax rate and a tax rate of 10 mills would yield $500 per student, 15 mills would yield $750 and 20 mills would yield $1,000. When the yield per student per mill is, for example, twice as great from one town to the other, the town with twice the yield can spend twice as much per student at the same tax rate, or spend the same amount per student at half the tax rate or settle on some combination between the two extremes.

Yield per mill per student, then, becomes a good measure of the degree of inequality among towns. If the "richest" towns have a yield per mill per student of twice the "poorest" towns, then the choice is twice as much expenditure or half the tax rate. If the yield per mill per student rate is four times as great in the top as opposed to the bottom towns, then the choice is between four times the expenditure at the same tax rate, one-fourth as great a tax rate with equal expenditures or, perhaps, a combination of the two such as twice as much expenditure and one-half the tax rate both at the same time. Yield per mill per student represents the actual opportunity for school expenditure which a town faces.

In Connecticut the yield per mill per student variation is from $112 for the average of the top ten towns to $25 for the last ten average. (This is not as great as it is in some states where variation may be as much as 15 or 20 times, but the differences found in Connecticut are enough to create significant inequities.)

To translate these average figures for Connecticut into tax rates and expenditure totals, the $112 per mill yield in the State's "richest" 10 towns means that a 10 mill tax rate would yield $1,120 per pupil while the $25 per mill per student yield would mean that a 10 mill tax rate yields only $250 in the State's "poorest" 10 towns. In other words, the "poorest" towns might choose to spend $500 per student from local funds and require a tax rate of 20 mills to do so while the State's "richest" towns might choose to spend $1,100 per student and enjoy a tax rate of about 10 mills while spending that amount; the differential is 20 mills against 10 mills in tax rate and $500 against $1,100 in school expenditure, or twice as great a tax rate to spend less than one-half as much per student.

When looking at 169 towns, this per mill per student yield figure becomes the best way to understand how great the differentials are now and to evaluate differentials in the future, whether under the trend or under a new proposal. Table B-6 summarizes property value per student and yield per student as of 1971 for the entire State and for 100 towns divided into groups (first and last 10, 20, and 50) to reveal the magnitude of differentials.

TABLE B-6: Variations of Town Tax Base (1971)

Towns Identified By Rank	Property Value Per Student	Yield Per Mill Per Student
Top 10	$112,000	$112
Top 25	96,000	96
Top 50	84,000	84
STATE AVERAGE	$ 62,000	$ 62
Last 50	$ 34,000	$ 34
Last 25	30,000	30
Last 10	25,000	25

What the above table reveals is simply the magnitude of discrepancy among the towns. The basic problem is that the top 50 towns enjoy a per mill per student yield averaging $84 while the last 50 towns average $34, or less than half as much. This means the top one-third of all towns in the State could tax at the same rate as the bottom one-third and yet receive more than twice as much per student from local property taxes to spend on education.

Table B-7 compares current inequalities with what will probably prevail in 1975, 1980, and 1985 if current trends continue. (There is strong reason to believe that current trends will continue or perhaps worsen rather than moderate the inequalities; all trend projections, however, are made on the assumption that recent trends will

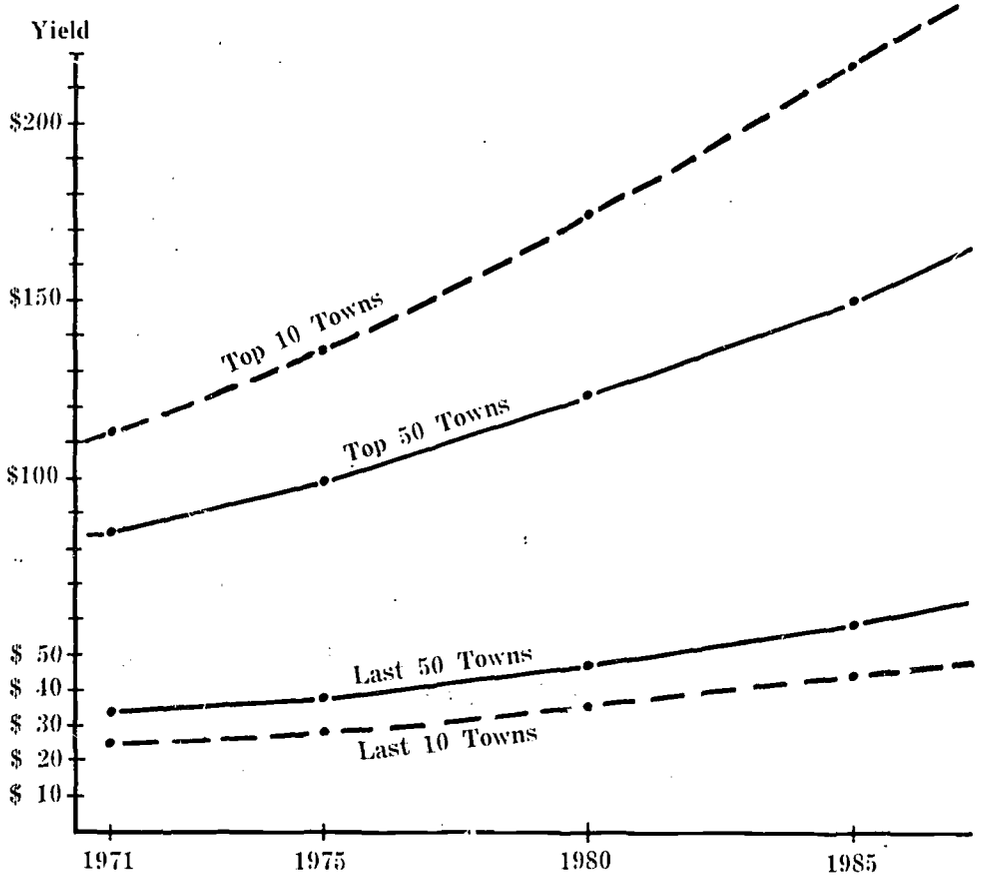
TABLE B-7: Yield Per Mill Per Student Trends

Towns Identified by Rank in 1971	1971	1975	1980	1985
Top 10	$112	$135	$174	$216
Top 25	$ 96	$113	$141	$173
Top 50	$ 84	$ 99	$122	$150
Last 50	$ 34	$ 39	$ 48	$ 59
Last 25	$ 30	$ 34	$ 41	$ 50
Last 10	$ 25	$ 29	$ 35	$ 43

continue in about the same way as during the past 10-15 years.) Whereas the range of yields is now 4-to-1 for the top 10 towns compared to the last 10, the range in 1985 would be 5-to-1: and the dollar gap will be worse, with each mill raising over $200 in the top 10 towns and only $43 in the last 10. Similarly the gap for the top 25 and last 25 will increase from $96 as against $30 to $173 against $50. Even the top one-third of all towns against the bottom one-third (first and last 50) will increase from $84 and $34 to $150 and $59. Clearly, the gap is increasing by any measure.

Chart B-2 summarizes this same table in graphic form — the diverging lines demonstrate growing inequality, as the lines for the top 10 are compared to the last 10, and the top 50 compared to the last 50. Again, the visual presentation simply highlights how the inequality is growing worse over time.

CHART B-2: Yield Per Mill Per Student Comparison



Note: The above figures, as well as those shown later in the text, are explained in more detail at the end of this volume. Briefly, the difficult task in comparing tax rates is the variation among towns in assessment ratio (mill rate applied to only some fraction of full value) and the differing periods of time since general revaluation in towns (which, since property values generally rise, means some values are much understated when no recent revaluation has updated values, thus distorting comparisons). All data in this report is the product of computerized analysis of past trends and other studies which gives a consistent and fair comparison overall. But it must be emphasized that only the patterns should be recognized as worthy of confidence and that individual town data may well be affected by errors due to special factors not reflected in overall trends.

School Resources and Equal Educational Opportunity

An implicit assumption of this report is that school expenditures have some effect on school quality. Overall, the Commission has little doubt that expenditures make a difference. We know spending twice as much does not bring twice as good an education, but logic and experience lead us to believe the large differential — spending twice as much in some cases — does have some significant benefit. This section analyzes some of the studies and experience collected on the question. As an introductory comment, however, the Commission emphasizes that the issue in Connecticut is one of very large expenditure differentials — from $200 to $500 per student, or more — and that cannot fail to make a difference in most cases. Educational quality is not simply a function of expenditure, but most educators would agree, for example, that an extra $200 can significantly enhance educational quality. An extra $200 per student, available in many cases, would — depending on what the individual school district felt most useful — permit:

1. a reduction in class size by one-third or more, from a relatively high average of 25, for example, to a relatively low 17;

2. teacher aides in every classroom; or

3. the purchase of significantly more needed teaching materials, and substantial increases in special programs, activities, and services such as art and music instruction, library and media resources, guidance counseling, individual tutoring, and the like.

Court Attitudes on Expenditures and Opportunity

Defendants in court cases regarding school finance have argued that redistributing resources for schools is useless because there is no relationship between the amount of money spent in a school and the amount children learn. Judges have dodged this argument so far. In *Hobson* v. *Hansen*, Judge J. Skelly Wright ruled that Washington, D.C. school officials were inconsistent when, on the one hand, they claimed that putting more resources in poor schools would not help — and, on the other hand, they justified their annual budget requests in terms of the efficacy of their expenditure.[25] The California Supreme Court in *Serrano* v. *Priest* refused to consider the argument that money makes no difference, because the issue had been conceded by the defendant's demurrer.[26] In *van Dusartz* v. *Hatfield*, the judge decreed that the amount spent for schools apparently must have some importance, since otherwise wealthy districts would be irrational to spend more money than poor districts, as they generally do.[27]

The Court rulings have been inconclusive because the actual evidence on the effectiveness of school spending has been subject to continuing controversy. In fact, controversy has raged over this issue since the publication of the Coleman Report in 1966.[28] Several treatises have attempted to analyze, synthesize, and summarize the controversy;[29] new findings will no doubt continue to pour in for some time. The following pages will briefly describe the main issues in the controversy, and will then discuss what the empirical studies imply about school finance reform.

Empirical Studies: Schools and Achievement

The Civil Rights Act of 1964 charged the Commissioner of Education to conduct a survey "concerning the lack of availability of equal educational opportunities for individuals by reason of race, color, religion, or national origin . . . in the United States . . ." The resulting report, of which James Coleman was the principal author, was based on a gigantic survey covering elementary and secondary schools throughout the nation. The large Equal Educational Opportunity Survey (EEOS) tried to find out whether the differences in scholastic achievement were caused by differences in the schools. It is worth presenting their conclusion verbatim:

> ". . . one implication stands out above all: that schools bring little influence to bear on a child's achievement that is independent of his background and general social context; and that this very lack of an independent effect means that the inequalities imposed on children by their house, neighborhood, and peer environment are carried along to become the inequalities with which they confront adult life at the end of school. For equality of educational opportunity through the schools must imply a strong effect of schools that is independent of the child's immediate social environment, and that strong independent effect is not present in American schools."[30]

The authors base this conclusion on their finding that variation in school inputs (facilities, curriculum, and teachers) accounts for much less of the between-school variation in student achievement than does variation in socio-economic background. The socio-economic composition and attitudes of the student body are also more important than school facilities, curriculum, or teacher quality. Given the relative unimportance of school inputs as a whole, the characteristics of teachers are found to be the most important.

If these findings and conclusions are valid, then redistributing resources among schools would not bring about equal educational opportunity; that would be much more important to bring students of diverse backgrounds together. Even then, schools could not fully compensate for differences in the non-school environment.

However, the EEOS findings and conclusions have been challenged. First, some other studies have challenged the basic finding that school resources can have only a small effect on student achievement, relative to the effect of socio-economic background. Second, some writers have questioned whether scholastic achievement tests really measure the most important output from schools. Hanushek and Kain[31] have pointed to specific instances of likely bias in the EEOS data due to nonresponse, unreliability of the questionnaires, inaccuracy in coding, small samples for some regions, the use of data for a whole school to measure the experience of individual students in it, the failure to account for any scale economies in a linear regression model, and the absence of any data on students' ability or achievement before they entered school.

Even if defects in the data and differences among individual students can be disregarded, there is also evidence that the statistical procedure used by the EEOS tended to underestimate the degree to which the amount of resources available to children in school is correlated with their socio-economic background. Thus the EEOS data themselves may support conclusions different from those the authors drew.

In addition to its conclusion about the small effect of school resources relative to students' own socio-economic background, the original EEOS report also concluded that the average socio-economic level of other students was consistently associated with any particular child's level of achievement.

A recent study by Winkler[32] has carefully tried to separate out the effects of socio-economic background, school resources, socio-economic composition of the school, and the racial composition of the school. Winkler used data on individual children from a single school district in California, including data on test scores from previous years to control for what the children knew when they came to school. Winkler concludes that, to provide equality of educational opportunity, "high quality teachers as measured by the determinants of salary or prestige of undergraduate institution should be allocated equally among all tracks and races." Furthermore, "schools should be integrated in terms of student socio-economic status at all grade levels."

Furthermore, it is far from certain whether scholastic achievement is the most important contribution of schools to a student's economic success when he leaves school. Weiss[33] found that blacks obtain a smaller economic return from a given amount of schooling, even when years of schooling are adjusted for differential rates of achievement in school. Berg[34] has questioned whether academic credentials have any real relationship to productivity on the job. Dreeben[35] has described some of the non-cognitive behavioral traits that schools teach, and Gintis[36] has demonstrated that the positive relationship between a person's income and years of schooling may be quite independent of actual cognitive learning. Thus the studies of what determines scholastic achievement may not help to find how schooling can promote equal opportunity.

Impact of the Current School Finance System on Community Development

Broader results of the current school finance system can be seen in the area of community development, which leads back again to further adverse effects on the school system. The current school finance system shapes community development decisions in such a way as to (1) segregate families by income range, (2) limit the effectiveness of our schools through the segregation by

income, and (3) create incentives for tax inequities, economic segregation, and educational inequality to become worse rather than better.

The current property tax system — which creates very substantial differentials among towns as to tax rate and school expenditure — provides a substantial incentive for industrial and commercial developers or enterprises to concentrate in towns with low tax rates, enabling those towns to reduce their tax rates even further without reducing local government services or school budgets. In addition, the combination of low tax rates and high school expenditures prevailing in those same towns provides a very significant incentive — in many cases the dominant factor in the decision — for affluent families to build or buy housing in such towns. The incentives attract business and private property owners, increasing land prices; businesses constructing large facilities can afford to pay and individuals building expensive houses can afford to pay — because the tax savings are so great — but a person constructing an average house ($20,000 to $25,000 construction cost) cannot afford the higher land cost.

The net result of this process is that there is a very significant tendency for new business development in the State to be concentrated in towns which already have low tax rates (and generally high school expenditures). Likewise, the more affluent homeowners choose the same towns. These towns thus are able to continue reducing their tax rate. Less affluent families are excluded from these towns, settling instead in towns with high tax rates — which become ever higher, as a result.[37]

Overall, there is a very significant sorting of suburban residents by income level, related in large part to this effect of the existing local property tax system. Data on new housing value and family income make it very clear that there is a very significant and marked sorting or segregation of families by income level — a sorting and separation of the more affluent from the less affluent which affects suburbanities without regard to race every bit as much as it affects inner-city minority groups. Towns which are primarily composed of the more affluent families are able to spend great amounts on education at low tax rates, becoming ever more attractive for affluent families and ever more able to spend more and more, at the same time finding that few middle or lower income persons can move in because of the high land cost. Towns with high tax rates and low school expenditures find that no higher income persons choose to move into the town and very little business chooses to locate in the town, meaning that tax rates remain relatively high and school expenditures relatively low, and the cycle continues.

The net result of this system is not only marked segregation by income level, and a worsening situation, but the final results can be seen in the school system. The studies which have suggested that school expenditures are not the most important factor in education, such as the Coleman Report, found that exposure of children to other children from other socio-economic or cultural backgrounds was the key factor in their learning process.[38] The result of a sorting of families by income level is that such peer group stimulation and learning is inhibited. Since most high income families are oriented toward education and place a high premium on the value of education, their children are especially stimulating for children whose families have not had the experiences which cause them to put such a high emphasis on educational attainment. But the children from these families where emphasis on education is strong very often do not now, and will even less in the future, attend school systems where they are in contact with, and are a positive influence upon, children from low income or even middle income families where the attitudes toward education are different. Likewise, children from families of low or middle income, other ethnic groups, employment classifications, or whatever, also have positive insights, values, attitudes, or other characteristics which would be stimulating and valuable to children from higher income families. Yet the children of the more affluent are equally denied the benefit of stimulation by these peers. Thus, the current system not only denies children equal educational expenditures, and equal educational quality insofar as quality is correlated with expenditure, but the current school finance system creates a situation where children are denied stimulation and learning from children of different backgrounds. Thus, in two ways, we have created a school finance system which is not equal; we have created a school system which is to some degree, with respect to peer group stimulus, impoverished for all students; and we have created a system with built-in incentives to make the situation grow worse rather than better.

Mechanics of the Sorting of Suburbanites

The clearest way to understand exactly how the above effects come about is to look at two families about to build housing in the suburbs. One family intends to build a $50,000 house. In looking at suburban towns, the family sees that Town A imposes a tax rate of 15 mills and boasts per pupil school expenditures over $1,000. Town B imposes a tax rate of 30 mills and spends only about $600 for schools. In Town A the family would pay $750 per year in property tax and in Town B $1,500 per year; and while the family pays less for taxes, the children can go to schools able to spend a great deal more per student. The family, of course, chooses Town A; they can save $750 a year in property taxes and, in virtually every case, know that their children are likely to receive a better education.

Facing the above decision, most families would choose Town A. The net result of the competition for housing or land in Town A is that land prices increase, from the average of perhaps $5,000 per lot to $10,000 or even $15,000 per lot. To get better schools and a lower tax bill, the family must now spend an extra $5,000 or $10,000 for its land (a premium resulting from the tax system). The affluent family pays the premium of $5,000 or $10,000 (and additional annual tax payments on higher land value) because (1) the family can afford it and (2) the family will get back that money over time by saving the $750 difference per year in property taxes between Town A and Town B.

A second family considering a move to the suburbs would face a very different decision if it could only afford a $30,000 house. That family, too, would save if it could move into Town A; it would save the difference between $450 in taxes and $900 per year in property taxes (15 mills times $30,000 in Town A vs. 30 mills times $30,000 in Town B). Again, that family, too, would be happy to send the children to a better school system. However, for this family the problem of spending an extra $5,000 or $10,000 on the land is very likely an insurmountable problem. This family, building a $30,000 house, would be required to spend a great deal more than what they had budgeted to buy an appropriate amount of land in Town A. Most likely, the family is just moving from a central city and has barely enough for the down payment on a house as it is, and coming up with a larger down payment or spending $40,000 (land and house total) rather than $30,000 is simply something which they cannot afford. At the same time, the tax saving is less than for a more affluent family ($750 vs. $450). So the less affluent family settles for higher tax rates and lower school expenditure rather than pay the $5,000 or $10,000 land cost premium.

These results can be seen for individual families where paying a premium of $5,000 or $10,000 per lot is easily undertaken by the more affluent family and not so easily undertaken, and most likely not able to be undertaken at all, by the less affluent family. The system works even more dramatically, and has fewer exceptions, when a developer is inserted into the middle of the process. A developer uses a relatively firm rule of thumb that land cost should not be more than 15% or 20% of market value of the residential unit he intends to sell. That means that if land is costing $5,000 per lot, the developer will intend to build a residential unit to be sold for $25,000 to $30,000. If land, however, is costing $10,000 per lot, the developer would not build on such land unless he is building houses in the $50,000 to $60,000 range. And where land costs $15,000 per unit, the developer would be building $75,000 to $100,000 homes. This means that for the majority of people who buy housing which has been built by developers, there is almost no way around the situation that low tax towns which are high land value towns have only very expensive housing available. Low tax towns, enjoying high school expenditures, are only available to those buying $50,000, $75,000, or $100,000 houses. For the person moving to the suburbs who is only able to afford a $30,000 house, or something in that range, the choice is dictated to him — a high tax town with low school expenditures where he does not have to pay as much for land and where a developer has decided that the land cost is proportionately sound for the housing he intends to build.

As a result of this system, therefore, high income families tend to choose towns with low tax rates and high school expenditure, and such towns are open only to those families. For rapidly growing towns with high tax rates and low school expenditures, only middle income families (relatively low income suburbanites) move in, causing the tax rates to stay high or even rise in many cases. And in the central cities, the very poorest remain and the already high tax rates continue to go up.

Restricted Zoning

A great deal has been written about restricted zoning and virtually all analysts agree that the linkages between property value created by a family and demands on the town (most importantly, the school system) are a significant cause of exclusionary zoning. That is, a town which is concerned about its own financial situation (its tax rate) has a strong incentive to keep out families who require educational expenditures but whose home value is relatively low. Suburban towns with low tax rates — or, in fact, most suburban towns — have a financial incentive not to permit land which might be used for high value single family houses to be zoned for public housing (where virtually no tax revenues are collected), or even for low cost private enterprise housing where the tax revenues expected from the low value housing fall far short of what is necessary to educate the children who will live in these houses. Towns may be unwilling to accept lower priced townhouses, public housing of any sort, or even standard small housing on relatively small plots of land. The link here is between housing value and educational cost. That is, a town faces the dilemma that children added to the educational system will require school expenditures equal to other children in the system. But if the persons moving in are going to pay much less in property taxes than persons already there, the town is really forced to take on a share of their cost to be spread among all the existing property owners.

Business Location

Much the same kind of thinking which goes on for individual families or developers can be seen in a business decision. When a new business moves into Connecticut or moves its site within the state, property taxes can become an important consideration in which to locate a large factory. (There are, of course, many other significant considerations but, when all are equal or nearly equal, the ones outlined here become exceedingly important.)

To use an example of a business about to build a $1,000,000 plant, it can easily be calculated what property tax payments are going to be required in the various towns. In Town A, with a property tax rate of 15 mills, the tax on that $1,000,000 building would be $15,000 per year; in Town B, with a tax rate of 35 mills, the property tax bill would be $35,000 per year. Thus, the business can choose one town and pay $20,000 less in property taxes than in another town. If this figure is capitalized into current value (at ten times annual amount, the conventional approach), the savings are equivalent to $200,000 in current dollars. Obviously, the savings of $200,000 (the current value of property tax savings) would be enough to cause the business to locate in the lower tax town than in the higher tax town unless there were a very significant factor at work in the higher tax town — labor supply, market, utilities, or the like. Within a particular state or metropolitan area, there are seldom such differences. As a result, businesses very clearly concentrate in the towns with the lower tax rate. The net result of this, analogous to the situation for individuals, is that land prices have gone up for industrial or commercial land in the lower tax towns; but the savings are great enough that the wise decision is still to locate in the lower tax towns even while paying somewhat more by way of a land premium at the outset.

The location of business in this manner, a concentration which parallels the concentration of more affluent individuals, reinforces the process which has been outlined above. That is, concentration of business and affluent persons means that a town has a very high tax base; a relatively low tax rate will yield a great deal of income for the town. Business, of course, is especially desirable because that does not necessarily mean children or demands upon the school system. Thus, the incentives which cause businesses to choose some towns over others, paralleling the incentives which caused wealthier residents to seek out those same towns, reinforce, perpetuate, and significantly worsen the differentials among the towns.

It might be noted here also that concentration of high income persons and businesses in the same towns creates a line of other effects which further reinforce this situation. For example, shopping centers are very much desired by towns because this adds a great deal to the tax base without, of course, adding any more children. Shopping center developers, however, are most interested in locating where high income persons and employment centers are located. Thus, a town which has a large number of high income persons and a large number of office buildings, manufacturing plants, and the like is the town which will be most attractive to shopping center developers. A similar process can be seen for location of other shopping

facilities as well as many kinds of office buildings. A small difference in tax rates at the outset creates a flow of persons and their residences, a flow of businesses and a dynamic interaction among them which creates a situation becoming worse each year.

Alternate Approaches to Equity In School Finance

The following pages will analyze, in a general way, the problem of financing public schools adequately, equitably, and with minimum demand for new State revenues. The main alternatives under consideration in other states will be described and compared to the present system of school finance in Connecticut.

In simplest terms, the main problem attacked by the courts in *Serrano* v. *Priest* and subsequent decisions is that school districts with relatively large amounts of property value per pupil can obtain relatively high levels of school expenditure per pupil without having to impose high property tax rates. Conversely, districts with meager amounts of taxable property per pupil must impose high tax rates to obtain merely adequate amounts of educational revenues per pupil. This inequitable result is inherent in any system of school finance that relies on revenues raised by local districts — unless the State intervenes to supplement the revenues from districts with relatively little tax base per pupil.

In considering how best to subsidize low-wealth districts, the State must also bear other objectives in mind. First, no school district should be permitted to provide less than an adequate level of support for its public schools. Second, the local tax rates required to support high-quality public schools must not become prohibitive. Third, the State Legislature will want to accomplish all of this at the least possible cost in terms of new State tax revenues required. In short, the problem is to neutralize the differences in per-pupil wealth among districts, to avoid excessively high local tax rates or excessively low levels of expenditure, and to minimize the need for new State taxes.

The present system of State aid to public schools in Connecticut is no longer satisfactory because it does nothing to offset inequalities in district wealth per pupil. A report by the Federal Reserve Bank of Boston on school finance in the 6 New England states found that there was a complete lack of any correlation between local property value per pupil in Connecticut school districts and the amount of State aid per pupil received by the districts.[9] As explained above, the largest portion of State aid in Connecticut is distributed in flat grants per pupil to all districts, with small districts getting a little extra, but with no adjustment at all for the size of a district's tax base per pupil; nor does other State aid for school construction and transportation, or for special educational needs, have any equalization effect. Connecticut, as a result, ranks last among all 50 states in terms of net equalization effect of state aid.

However, Connecticut is relatively fortunate, because the variation in wealth among its local districts is relatively small — smaller than in any other New England state.[10] Consequently the variation in expenditure per pupil between districts is not as extreme as might be expected, even though State aid now does nothing to reduce disparities in local revenue-raising capacities. To remedy the inequity arising from these disparities will be considerably less expensive in Connecticut than in most other states.

Numerous alternative plans have been proposed in other states to neutralize the differences in wealth per pupil between school districts. One idea which the Commission did not consider in detail is an educational voucher system. This proposal has been publicized a great deal recently, and it may have merit, but the Commission did not deal with voucher alternatives because (1) voucher systems imply very fundamental changes in the school system, going beyond finance, and the Commission did not feel it appropriate to pursue such broad issues deserving of lengthy, expert study; and (2) a voucher alternative can be designed and implemented in any system without any necessary results for financial equity, meaning that a voucher system would not cure our problems in itself and yet could as easily be undertaken after changes as now.

Confining the study to alternative methods of dealing with the finance issues, the Commission found it convenient to classify proposals into two main types: (1) "Full State Funding" or State assumption of full responsibility for financing public schools and (2) local option plans, including "power-equalization" and many variants.

Full State Funding

Full State Funding is the simplest plan. It already exists in Hawaii, has been advocated by the prestigious Advisory Commission on Intergovernmental Relations[41] and has been seriously proposed by the Fleischmann Commission for New York State.[42] The President's Commission on School Finance (*Schools, People and Money*, 1972) has also favored this approach, as have major reports in various states, including New Jersey, and many prominent individuals. In essence, full State assumption would eliminate all local taxes for schools. They would be replaced by State revenues, possibly including a state-wide property tax. The money collected by the State would be returned to local school authorities in proportion to the number of students. More money may be allocated to some categories of students than to others, but the amount allocated for any student never depends on the revenue-raising capacity of the school district in which a student lives.

The main drawback to full State assumption is that districts which now spend large amounts per pupil would, at some point, not be able to continue spending more than other districts. It has been said that this might induce more affluent residents of these districts to seek private education on a much larger scale than now. To permit very high expenditures, the State would have to provide high levels of expenditure for all students throughout the State, which would cost more money than the Legislature or the taxpayers may want to provide. Of course, it is always possible for the State to set a certain uniform level of expenditure per pupil, but also to guarantee that any district presently spending more may continue to do so, with the excess either raised from local taxes or paid by the State. If this were done on a permanent basis, however, it would violate the goal of equal spending opportunity and equal tax burden. Temporary relief (in the form of implementation by phases) would only postpone the problem so that a high-expenditure town need not cut expenditures, but inequality could not remain indefinitely.

Other discussions of Full State Funding have explored many aspects of that approach, and the Commission feels it unnecessary to repeat those views. If Full State Funding were desired, it could meet the problems raised here and there is no doubt a proposal could be formulated. And, if we do not act, that may well be the only alternative left to us. **But the Commission believes that local school initiative, imagination and responsibility are characteristic of our town heritage in Connecticut and that diversity of schools — in spending, to some degree, as well as in program — is valued by our citizens.** For these reasons, Full State Funding is not recommended on the grounds that the Commission believes there is a more creative solution that will solve our problems and preserve these other virtues of the current system as well.

Local Option Plans

The main alternative plan to Full State Funding would make it unnecessary to choose between forcing high-spending districts to keep expenditures down or supporting a uniformly high level of expenditure in all districts. Local option plans would allow every district to choose its own desired level of expenditure per pupil, but would have the State redistribute money in such a way that the local tax rate required to obtain any chosen level of expenditure per pupil would be the same in all districts, regardless of a district's actual tax base.

For example, a tax rate of 10 mills on true value could permit any district to spend $600 per pupil, and every additional mill could result in an additional $60 per pupil. The State would subsidize any district whose own tax base yielded less than $60 per pupil from each mill of tax, and districts where the tax base would yield more than $60 per mill would pay the excess back to a common fund. If the ratio of total property value to total pupils in the State were $60,000 per pupil, then guaranteeing every district $60 per mill of tax would roughly equate the total cost of subsidizing low-wealth districts to the total excess revenues raised in high-wealth districts. The plan would be approximately self-supporting — would require no new State revenues. More precisely, whether the cost to the State is positive or negative rather than zero would depend on whether poor districts tend to choose higher or

lower levels of taxing and spending than wealthy districts.

In summary, compliance with the principles of *Serrano v. Priest* means that the State must find a way to neutralize differences in taxpaying ability between local school districts. Now the State faces a conflict between the need to keep its own taxes down and the need to protect high-spending districts against drastic spending cuts or tax increases. Immediate Full State Funding would make it prohibitively expensive to protect the high-spending districts, although a phased plan could be devised to lower the cost — but still leaving certain problems, as noted. A local option plan could be less expensive if implemented over a reasonable period of time. Thus, like many problems with several objectives, our dilemma requires a more complex solution. Although simplicity is preferable to complexity, a more complicated formula may justify itself by reducing the amount of new State (or Federal) money that will inevitably be required to bring about equity in school finance. The task, having tentatively chosen local option, is to introduce it as fairly and equitably, with as little disruption and disturbance as possible, at moderate cost, and yet still not lose sight of the critical need for action to solve our problems.

The New School Finance Program: An Equal Educational Opportunity System

The following pages describe and detail the objectives, operation and results of a new school finance system for Connecticut. Having concluded that a new school finance system is necessary to insure equal educational opportunity, **the Commission recommends a public school finance system which will:**

1. Enable every town, every voter and every parent to choose a school expenditure total equal to school expenditures in other towns at the same tax rate: "equal revenue result for equal tax effort";
2. Provide fairly and adequately for special education needs, so that equal opportunity becomes a meaningful phrase for those who need extra help because of physical, mental or socio-economic handicaps; and
3. Operate automatically to insure that, in the long run, the new system will reverse incentives for economic segregation of the population and enable all parents to choose quality education for their children, yet neither bring "lowest common denominator" equalization nor rob local parents of their voice in local school systems.

The Equal Educational Opportunity System

The proposed Equal Educational Opportunity System requires the establishment of a State Equal Educational Opportunity Fund ("SEEOF") which would have the authority and the mandate to administer the program described below. SEEOF would cooperate with the new assessment supervisors whose role is outlined in Part C of this volume. The task of SEEOF would be to institute a program, based on equivalent current market values of all property in the State, which would eventually permit all school systems to raise approximately the same amount of money per student for each mill of the tax rate — i.e., educational spending would be uniformly proportional to tax rate throughout the state. In practice, this system would work as follows:

A. Each town would separate school expenditures from other local government funds and calculate school tax rates separately from the general government tax rate; only the school portion would be affected by the new system.

B. SEEOF would determine, based on property value per student across the State, what the average yield per student per mill would be if a uniform property tax for school finance were to be imposed across the State of Connecticut.

C. This average yield would be translated into a schedule correlating mill rates with yield per student, like the following:

Mill Rate	Yield per Student
5	$300
6	360
8	480
10	600
15	900
18	1080
20	1200

D. Based on this schedule, SEEOF would work to a situation where every town in the State, in the long run, would be guaranteed no less than the above yield per student correlated with each mill rate and where each town in the State would be able to spend no more than the above amount as determined by its tax rate.

E. Each town would continue to set its own school tax rate and administer all funds raised by the property tax (whether locally or through SEEOF) just as is done now.

F. Equal availability of funds would result throughout the State, at equal tax rates, with the exception of students in need of costly special educational services; each student in this category would entitle a town to 25% more than the State average yield per mill.

The key element in this proposal is the establishment of automatic mechanisms by which school expenditure opportunities can be equalized over time. The system explained below is a method which could begin the move toward equalization without new expenditures from the State General Fund or heavy burdens (higher taxes or reduction in school expenditures) in any town. Furthermore, the system is flexible — without extra State government expenditures, substantial equalization would be achieved in approximately 15 years, while alternative levels of outside funding would permit the State to reach substantially equal spending opportunity in 5-10 years.

Before turning to the basic proposal and the alternative, **the Commission emphasizes here that this proposal will not equalize educational spending. It provides equal opportunity for educational expenditures, but each town determines its own tax rate and spending level.** What this proposal does is to eliminate the current anomaly of towns forced to tax at very high rates and yet spend at relatively low levels (or able to spend more and tax less) in favor of a system where every town has an equal opportunity to choose to spend more or less on education because each town will have available the same amount per student at a chosen tax rate as any other town at that same tax rate.

The mechanism outlined here would apply only to local property taxes for school finance. Local revenues for non-educational purposes would be unaffected, and there would be no changes in any existing programs of State aid to local school districts. Towns would continue to tax and spend for general government services as under the current system, and all State and Federal aid programs for schools and other purposes would be continued on the same basis as now. To separate school and general government funds, municipalities would calculate their property tax rates separately for school expenditures and for general government purposes — for example, a rate of 35 mills (adjusted to reflect true rate on full market value) might equal 25 mills for schools and 10 mills for other government services. The taxpayer would still receive a tax bill reflecting both rates, but the town would actually deal with the two separately.

Implementing the System

In order to move toward the above system without raising tax rates or reducing expenditures in towns with above average yields — or suddenly increasing expenditures by large amounts in towns now able to spend very little on education — the following procedure would be used to introduce the new system over a period of years sufficient to permit all towns to adjust to the new situation:

1. During the year in which this program is instituted, all local government tax rates and receipts used for education would be defined for purposes of calculation as "Base Year Tax Rate" and "Base Year Yield." Each town would be assigned, according to the actual circumstances in its town during the Base Year, a Base Year Tax Rate (i.e. the school tax rate prevailing in the year in which the program goes into effect) and a Base Year Yield which is equal to the school expenditures per student received from that tax rate.

For example, Town A might currently be taxing at 25 mills and 80% of the revenues might go to schools; the Base Year (school) Tax Rate is 20 mills. If Town A spent a total of $800 per student from the property tax revenues only, Base Year Yield would be $800. That is, its Base Year Tax Rate is 20 mills and its Base Year Yield is $800. Its Base Year Yield per mill per student would be $40 per mill per student (simply dividing total yield of $800 by mill rate). Town B, going through the same procedure, might determine that its Base Year Tax Rate was 15 mills, its Base Year Yield per student $900 and its Base Year Yield

per mill per student $60. Each town in the State would calculate its Base Year Yield in this manner.

2. Every town in the State would be guaranteed no less than Base Year Yield. That is, if a town now receives $800 with a 10 mill rate, it would be permitted to keep that amount: or, alternatively, it might be thought of as a guarantee that the town is permitted to keep $80 per mill, meaning that it is permitted to keep $800 at the current 10 mill rate or it might keep $880 at an 11 mill rate, $960 at a 12 mill rate, and so on.

3. All increases in the yield per mill, or the yield at any given tax rate, would be paid over to SEEOF in the years subsequent to the Base Year. For example, a town now receiving $50 per mill per student would, as outlined above, be permitted to keep $50 per mill per student no matter what its tax rate was; however, if in the second year or the third year, or any other year after the Base Year, tax yield increased above that prevailing in the Base Year to, say, $60 per mill per student, the increase (from $50 to $60, an increase of $10) would be paid into SEEOF. In fact, the yield per mill per student is increasing in most towns almost every year, and these increasing amounts would be paid to SEEOF as the increase occurred. SEEOF would be collecting, for redistribution, the benefits of all increases in property values in the State as reflected in the yield at whatever tax rates the individual towns chose. This would amount in Connecticut, at the current time, to approximately $10 million per year.

4. Using the funds received from the increase over Base Year Yield in each town, SEEOF would return those funds to the individual towns. There would be two payments:

A. All towns in the State would be paid a portion of the total increase in yield, increasing at a rate of $1 per mill per student each year after the first year ("Shared Yield Increase"), and any town experiencing a decline in yield would be brought up to Base Yield per mill plus $1 growth each year.

B. Those towns below the State average yield after adding together Base Year Yield and Shared Yield Increase would be paid a fraction of the shortfall, that fraction increasing each year as SEEOF revenues permit.

Eventually, all towns initially below the State average would be reimbursed the full amount by which Base Year Yield plus Shared Yield Increase fall short of the State average schedule, and Base Year Yield of all towns whose Base Year Yield is above the State average would have grown more slowly than the State average long enough for the State average to catch up to their total yield. Once the State average yield had caught up to the more slowly growing yield in the highest town, the effective final result can be summarized in three steps:

A. SEEOF would establish a State average schedule which reflects the actual yield per mill per student averaged across the State (much higher than the current amounts, due to growth over the 10-20 years required), perhaps as follows:

Tax Rate	Expenditure
5 mills	$ 500 student
10 mills	1000 student
12 mills	1200 student
14 mills	1400 student
16 mills	1600 student
18 mills	1800 student
20 mills	2000 student

This schedule would continue to be revised each year, reflecting the yield increase as total property value continues to rise. The table might also be adjusted as outside revenues are paid into SEEOF and permit it to pay out more than property taxes actually collect at each mill rate; that is, the table might actually be 2%, 3%, 10% or more above actual yield, with the excess met by General Fund (State) payments to SEEOF, if made available.

B. All towns whose yield is above the schedule would be paying into SEEOF a net sum equal to the amount by which actual local yield exceeds this State average schedule.

C. All towns whose yield is below the schedule would be receiving from SEEOF a net sum equal to the amount by which actual local yield falls short of the state average.

In the long run, what this system means is that every town enjoys an equal opportunity for school expenditures. Equal tax rates mean equal expenditures, but those who are willing to tax more will enjoy more funds to spend on education.

5. Because this system does not automatically provide any special funds for towns with large numbers of disadvantaged students even though it is known by everyone that such students require extra educational expenditures, the calculations outlined above would have one further procedure. Each student in a disadvantaged category would permit the town a bonus of 25% more school funds than the town would be entitled to were that student not in a disadvantaged category. In operation, this bonus would be granted by simply adding 25% of the number of disadvantaged students to the total number of students used in calculating payments to and from SEEOF.

For example, if a town with 1000 students had 200 disadvantaged students, it would be permitted to spend an amount equal to what it would have spent if it had a total of 1,050 students, reflecting the 25% extra (50 students) for disadvantaged students. The value of the bonus would vary, of course, as State average grew and it would vary according to the tax rate chosen by the town. The basic idea is simply that an extra 25% is permitted this town to reflect the extra costs of the disadvantaged students.

The definition of disadvantaged students is left for future determination but, in general, the Commission recommends that disadvantaged students be defined as (1) some or all of those who are now included in the special educational programs (blind, handicapped, emotionally disturbed, etc.), (2) those who receive special State Aid for Disadvantaged Children (SADC) based upon family income levels and (3) those children who demonstrate that special efforts are required by virtue of their performance on standardized tests. These groups of children number perhaps 10% to 15% of all the children in the State and each town would receive a bonus for some children falling into these categories. Those towns which have the largest number of such disadvantaged students would, of course, receive the largest payments. The key point is to recognize that, for many children, equal educational opportunity does not mean equal expenditure but extra expenditure; this establishes an automatic mechanism to permit each town to achieve that result — equal educational opportunity for all.

6. In order to assure that equalization is achieved within a reasonable period of time, **the Commission recommends that a goal of substantial equality of school finance capability within 10 years be established at the time the new system is adopted,** and that a commitment be made to provide sufficient funds as needed to achieve this goal. Substantial equality should be defined as the point at which 90% of the towns in the State are assured an effective yield per mill per pupil within 10% of the State average yield. According to the best available data, the Commission estimates that this goal can be achieved by making available to SEEOF each year $20 million from the General Fund. Therefore, the Commission further recommends that an automatic annual appropriation in the amount of $20 million be made to SEEOF, beginning at the time the new system is adopted.

Funding Level Alternatives

One of the most important and attractive characteristics of the proposal advanced here is the fact that it can begin movement toward equal spending opportunity for schools without requiring any new funds from State or Federal government. This section introduces three alternatives which the Commission presents to illustrate the range of options from which a specific program for Connecticut could be chosen. Although the Commission recommends the use of outside funds — grants to SEEOF from the State General Fund or any available Federal funds — the following three alternatives are shown to demonstrate that the program could be begun with any amount of, or no, outside funds:

1. Alternative 1 assumes no outside funds available to SEEOF. Payments to towns from SEEOF come only from the growth in property tax yield paid into SEEOF, as explained above. Although this would begin the needed move toward equalization, it would not meet the Commission recommendation of substantial equality (as previously defined) within 10 years without additional funds at some point.

2. Alternative 2 assumes $20 million of outside funding available to SEEOF from the first year of implementation onward. This alternative is recommended by the Commission because it should enable the goal of substantial equality to be met in 10 years, and has the further advantage of bringing substantial progress about as quickly as desirable in the early years.

3. Alternative 3 assumes $50 million of outside funds available to SEEOF for the first and each succeeding year. This would bring rapid progress and achieve substantial equalization faster than the lower-cost alternatives.

The objective of any form of this proposal for a new school finance program is simply to bring about substantial equality of yield within a reasonable period of time. The following explanations of each of the three alternatives show the varying lengths of time that would be required to achieve substantial equality, or complete equality, under different funding levels. As emphasized above, the first alternative (no outside funding) has the virtue of enabling the equalization process to begin without any additional State expenditures, although this alternative must be considered a "second-best" position if it is at all possible to put in outside funds.

1. *Alternative 1: No Outside Funding.* If no outside funds were available to SEEOF, equalization could be begun immediately, and significant progress would be seen in approximately 8 years. Substantial equality of yield might be achieved in approximately 12 to 15 years, while complete equality could not be achieved for at least 20 years, or more. Table B-8 summarizes the effects of this alternative by showing how yield would increase in the top and bottom 10, 20, and 50 towns in the State as groups over 14 years. This shows the degree of equality which would have been reached in any given year and the overall speed of equalization.

TABLE B-8: Alternative 1 Effective Yield Per Mill Per Pupil by Year of Program

Towns	0	2	4	6	8	10	12	14
Top 10	112	114	116	118	120	122	124	126
Top 25	96	98	100	102	104	107	109	112
Top 50	84	86	88	90	93	96	100	105
Last 10	25	33	44	54	64	71	81	93
Last 25	30	37	47	56	66	72	82	93
Last 50	34	40	50	58	67	74	83	94

Note: "Effective Yield Per Mill Per Pupil" refers to the amount that the town would receive for each student for every mill of the local school tax rate. As noted earlier, it is the variation in this figure today that results in high tax rates bringing some towns less school funds, and the narrowing of the differences in this figure which would signal equal opportunity to finance education. "Effective Yield" here includes all payments to and from SEEOF, resulting in the actual yield number which a town would multiply by its school tax rate to determine the amount available for each student. For this and later tables, the calculation of effective yield and other measures were based on an illustrative assumption that the new system was adopted for 1972 — Year 0 of the program is equal to the current system as it operated in 1971, and other years are for the new system.

Table B-9 shows annual income and expenditures of SEEOF for Alternative 1; as shown, the fund may be in a slightly negative or slightly positive position in any one year but the overall objective is to keep the cumulative position of the fund at balance.

TABLE B-9: Alternative 1 SEEOF Balances

(Millions of Dollars)

Year	Payments From Towns' Growth Less Payments To Towns	Other Income	Annual Balance	Cumulative Balance
1	3.5	0	3.5	3.5
2	1.9	0	1.9	5.5
3	0.2	0	0.2	5.7
4	– 1.8	0	– 1.8	3.9
5	2.6	0	2.6	6.4
6	– 0.9	0	– 0.9	5.5
7	3.0	0	3.0	8.6
8	– 3.9	0	– 3.9	4.6
9	– 3.1	0	– 3.1	1.5
10	10.2	0	10.2	11.7
11	– 6.1	0	– 6.1	5.7
12	6.9	0	6.9	12.6
13	0.7	0	0.7	13.2
14	–10.2	0	–10.2	3.1
15	1.1	0	1.1	4.2

2. *Alternative 2: $20 million Outside Funding.* The Commission recommends that $20 million per year be made available to SEEOF in order to achieve the goal of substantial equalization more rapidly. Assuming $20 million per year, beginning in the first year of the program, available to SEEOF, Table B-10 compares the top and bottom 10, 20, and 50 towns. Alternative 2 would bring significant progress within the first 5 years or so, and substantial equalization should be achieved in 10 years. Complete equality of yield could require as much as 20 years or more.

TABLE B-10: Alternative 2 Effective Yield Per Mill Per Pupil by Year of Program

Towns	0	2	4	6	8	10	12	14
Top 10	112	114	116	118	120	122	124	126
Top 25	96	98	100	102	104	107	109	113
Top 50	84	86	88	91	93	97	100	105
Last 10	25	41	50	58	67	76	86	94
Last 25	30	44	53	60	68	77	86	94
Last 50	34	47	55	62	69	78	87	95

Table B-11 shows the balance sheet for this alternative assuming the revenues from increase in property tax yield and, in addition, the $20 million paid to SEEOF each year from other sources; again, the goal is to keep the cumulative position of the fund at or near balance.

TABLE B-11: Alternative 2 SEEOF Balances

(Millions of Dollars)

Year	Payments From Towns' Growth Less Payments To Towns	Other Income	Annual Balance	Cumulative Balance
1	–16.3	20.0	3.7	3.7
2	–19.0	20.0	1.0	4.7
3	–16.9	20.0	3.1	7.8
4	–20.3	20.0	–0.3	7.5
5	–24.8	20.0	–4.8	2.7
6	–16.5	20.0	3.5	6.2
7	–23.2	20.0	–3.2	3.0
8	–14.0	20.0	6.0	9.0
9	–25.0	20.0	–5.0	4.0
10	–17.0	20.0	3.0	7.0
11	–21.4	20.0	–1.4	5.6
12	–22.0	20.0	–2.0	3.6
13	–20.3	20.0	–0.3	3.3
14	–19.9	20.0	0.1	3.4
15	–21.7	20.0	–1.7	1.7

3. *Alternative 3: 50 Million Annual Outside Funds.* One last possibility is a payment of $50 million per year into SEEOF from outside revenues beginning in the first year. The purpose of this alternative is simply to show the magnitude of difference that outside funds can make in speeding up equalization. If, for example, there were to be court decisions requiring equality and a major Federal program of aid to the States for schools, this alternative shows how the mechanism outlined here could use the large amounts of money that might be available from the Federal government to bring about equalization relatively quickly. Table B-12 shows that progress toward equality would be achieved in 5 years. Substantial equality should be achieved in approximately 8 years under this alternative.

TABLE B-12: Alternative 3 Effective Yield Per Mill Per Pupil by Year of Program

Towns	0	2	4	6	8	10	12	14
Top 10	112	114	116	118	120	122	124	126
Top 25	96	98	100	101	104	107	110	113
Top 50	84	86	88	91	94	97	101	106
Last 10	25	55	63	69	76	83	90	97
Last 25	30	56	64	70	77	83	90	97
Last 50	34	58	65	71	77	84	90	98

Table B-13 shows an annual balance sheet for the fund for Alternative 3.

TABLE B-13: Alternative 3 SEEOF Balances

(Millions of Dollars)

Year	Payments From Towns' Growth Less Payments To Towns	Other Income	Annual Balance	Cumulative Balance
1	–48.5	50.0	1.5	1.5
2	–47.2	50.0	2.8	4.3
3	–49.0	50.0	1.0	5.3
4	–50.9	50.0	–0.9	4.4
5	–48.2	50.0	1.8	6.2
6	–50.6	50.0	–0.6	5.6
7	–53.9	50.0	–3.7	2.7
8	–50.6	50.0	–0.6	2.1
9	–51.0	50.0	–1.0	1.1
10	–49.5	50.0	0.5	1.6
11	–50.5	50.0	–0.5	1.1
12	–49.4	50.0	0.6	1.7
13	–48.4	50.0	1.6	3.3
14	–48.2	50.0	1.8	5.1
15	–49.4	50.0	0.6	5.7

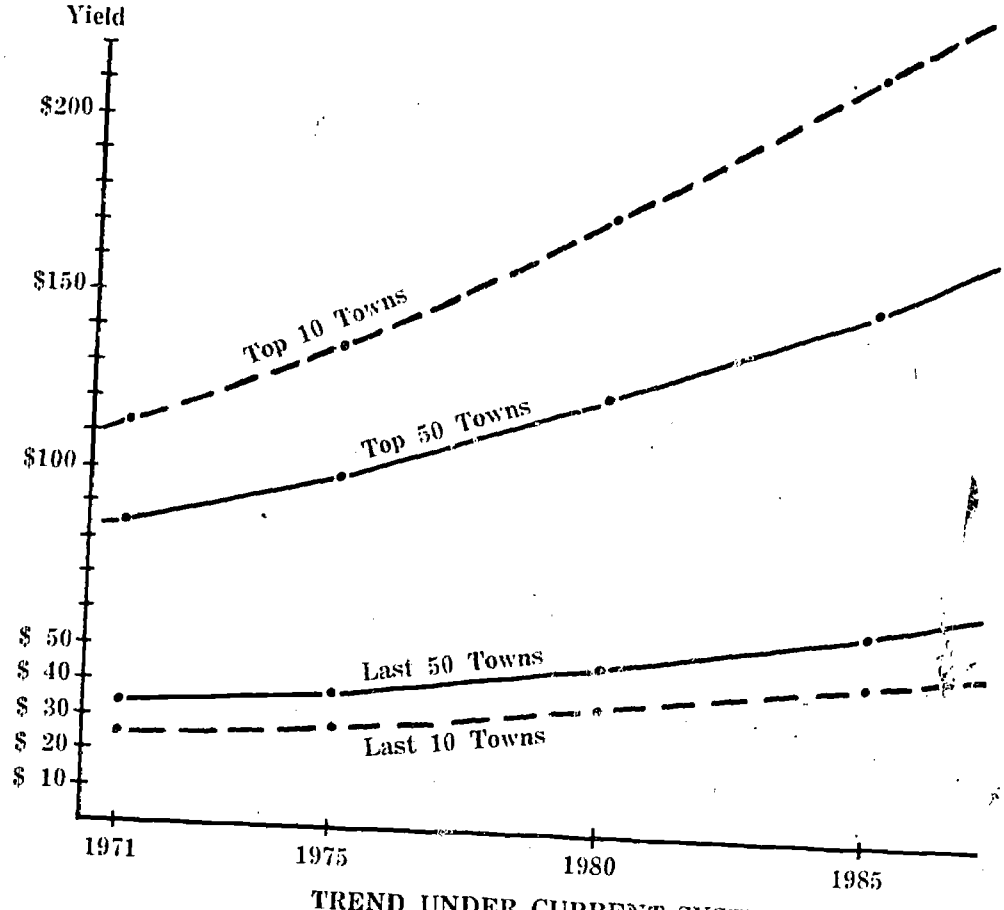
The task of weighing the above alternatives is no simple matter. **The Commission strongly recommends that some level of outside funding, preferably an increasing amount (and ideally enough to take the burden off property tax increases), be devoted to the equal opportunity fund.** However, the critical matter is that progress begin immediately toward equalization — before the inequities worsen, and before the cost of correcting them becomes any greater.

Chart B-3 compares the new system (Alternative 2 as recommended) against trend yield for the top and bottom 10 and 50 towns. The point of Chart B-3 is, of course, that the lines which show the pattern of growth in yield continue to diverge under the current system while the new system, would begin to bring these trend lines together.

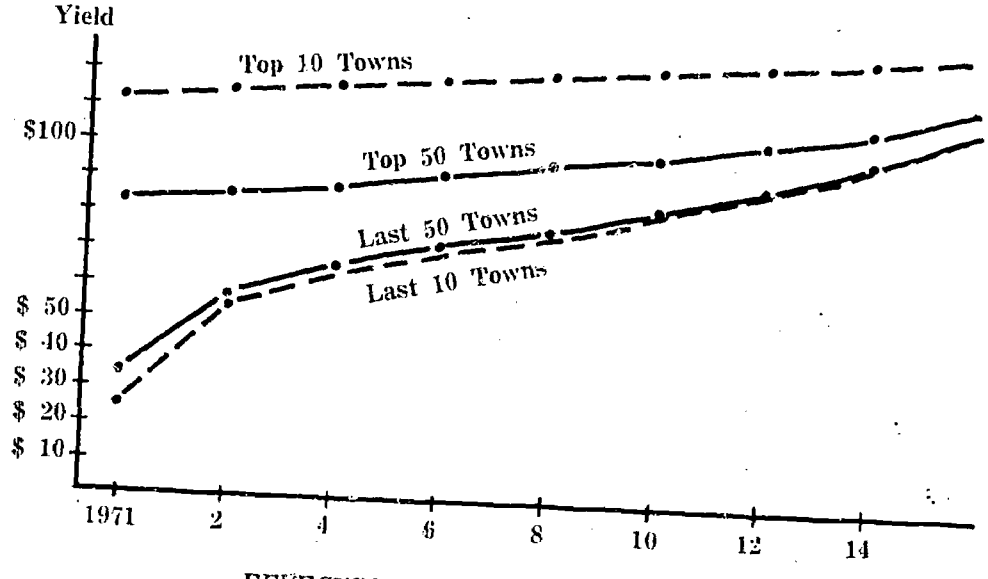
Effects on Individual Towns

The following tables show the impact of the new system on specific towns. The Commission has reasonable confidence in the summary data (inequities of towns by groups, overall SEEOF revenues, etc.) but it must be emphasized that the following data is largely illustrative. Individual towns are shown because we are ultimately concerned about them individually and not as groups. But it must be clear to anyone that town growth

CHART B-3: Yield Per Mill Per Student Comparison
Under Current and Recommended Systems



TREND UNDER CURRENT SYSTEM



EFFECTIVE YIELD UNDER NEW SYSTEM

(Alternative 2, Commission Recommendation)

patterns and local education decisions can change any trend overnight — so the following data is illustrative of how towns could fare under current trends, and how they will generally fare under the new program. For any single town, or many towns, there are undoubtedly errors, but the overall significance seems clear.

In each of the next three tables, past trends have been projected for each town separately to estimate what future property value and school tax yield might be, while school expenditures were projected according to past trends with some anticipated changes. In all cases, it has been assumed, for simplicity, that the new system is implemented during 1972.

Table B-14 shows effective yield per mill per student for each town by year from 1971 to 1986, assuming the new system (Alternative 2, the Commission recommendation) to have gone into effect in 1972. As explained earlier, the use of a yield per mill per pupil figure provides a fair basis to compare towns — if one town has a higher yield, it can tax less or spend more per student, while converging yield totals mean towns have an equal opportunity. As shown by Table B-14, the substantial differentials of 1971 would begin to close soon after implementation of the new system began, and most towns would be close to the State average within 10 years, and all but a few in 15 years.

TABLE B-14: Effective Yield Per Mill Per Student By Year By Town

(New System, Commission Recommendation of Alternative 2)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Greenwich	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193
Salisbury	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134
Canaan	111	112	113	114	115	116	117	118	119	120	121	122	123	124	125	126
Cornwall	107	108	109	110	111	112	113	114	115	116	117	118	119	120	121	122
Middlebury	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118
Lyme	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118
Roxbury	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116
Haddam	100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115
Westport	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112	113
Darien	97	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112
New Canaan	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107	108
Stamford	92	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107
Sherman	92	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107
Essex	89	90	91	92	93	94	95	96	97	98	99	100	101	102	103	104
Old Saybrook	88	89	90	91	92	93	94	95	96	97	98	99	100	101	102	103
Middletown	87	88	89	90	91	92	93	94	95	96	97	98	99	100	101	105
West Hartford	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100	102
Southbury	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	102
Westbrook	85	86	87	88	89	90	91	92	93	94	95	96	97	98	100	103
Easton	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	101
Berlin	83	84	85	86	87	88	89	90	91	92	93	94	95	96	98	101
Sharon	82	83	84	85	86	87	88	89	90	91	92	93	94	96	99	102
Hartford	82	83	84	85	86	87	88	89	91	93	96	99	102	106	110	114
Fairfield	81	82	83	84	85	86	87	88	89	90	91	92	93	95	98	101
Old Lyme	81	82	83	84	85	86	87	88	89	90	91	92	93	95	98	101
Stratford	79	80	81	82	83	84	85	86	87	88	89	90	92	95	98	101
Hamden	78	79	80	81	82	83	84	85	86	87	88	89	92	95	98	101
Kent	77	78	79	80	81	82	83	84	85	86	87	89	91	94	98	101
Bloomfield	77	78	79	80	81	82	83	84	85	86	87	89	92	95	98	101
New Haven	76	77	78	79	80	82	84	86	89	92	94	98	101	105	109	113
Rocky Hill	75	76	77	78	79	80	81	82	83	84	86	89	91	94	98	101
Wilton	74	75	76	77	78	79	80	81	82	83	85	88	91	94	97	100
Redding	74	75	76	77	78	79	80	81	82	83	85	88	91	94	97	100
Waterford	74	75	76	77	78	79	80	81	82	83	86	89	91	94	98	101
Branford	73	74	75	76	77	78	79	80	81	83	85	88	91	94	98	101
Groton	73	74	75	76	77	78	79	80	81	83	86	88	91	94	98	101
Bridgewater	72	73	74	75	76	77	78	79	80	82	85	88	90	93	97	100
Washington	72	73	74	75	76	77	78	79	80	83	85	88	91	94	97	100
Woodbridge	71	72	73	74	75	76	77	78	80	82	84	87	90	93	97	100
Weston	71	72	73	74	75	76	77	78	80	82	84	87	90	93	97	100
Farmington	71	72	73	74	75	76	77	78	80	82	85	88	90	93	97	100
Norwalk	70	71	72	73	74	75	77	79	81	83	86	89	92	95	99	103
Wethersfield	69	70	71	72	73	74	75	77	79	82	84	87	90	93	97	100
Orange	69	70	71	72	73	74	75	77	79	82	84	87	90	93	97	100
North Haven	69	70	71	72	73	74	75	77	79	82	84	87	90	93	97	100
Avon	69	70	71	72	73	74	75	77	79	82	84	87	90	93	97	100
New Britain	68	69	70	71	73	74	76	79	81	84	86	90	93	97	101	104
North Canaan	67	68	69	70	71	72	74	76	79	81	84	87	90	93	97	100
New Milford	66	67	68	69	71	72	74	76	79	81	84	87	90	93	97	101
Trumbull	64	65	66	68	69	71	73	75	78	80	82	86	89	92	96	99

TABLE B-14: Effective Yield Per Mill Per Student By Year By Town (Continued)

(New System, Commission Recommendation of Alternative 2)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
New Fairfield	64	65	66	67	69	70	73	75	78	80	82	86	89	93	97	100
Torrington	63	64	66	67	69	71	73	75	78	81	83	87	90	93	97	100
East Hartford	63	66	66	67	69	71	73	75	78	81	83	87	90	93	97	101
Madison	63	64	65	67	69	70	72	75	77	80	82	86	89	93	97	100
Milford	63	64	65	67	69	70	73	75	78	80	83	87	89	93	97	100
New London	63	64	66	68	70	72	75	77	80	83	86	90	93	97	102	105
East Haddam	63	64	65	67	68	70	73	75	78	81	83	87	90	93	97	101
Goshen	62	63	65	66	68	70	72	74	77	80	82	86	89	92	96	100
Woodbury	62	63	65	66	68	70	72	74	77	80	82	86	88	92	96	99
Norfolk	62	63	64	66	67	69	72	74	77	80	82	86	88	92	96	99
Waterbury	61	63	65	67	69	71	74	76	80	83	85	90	93	97	102	105
Danbury	61	62	63	65	67	69	72	74	77	80	83	87	90	93	98	101
Colebrook	60	61	63	65	67	69	71	73	77	79	82	86	89	92	97	100
Putnam	59	61	62	64	67	69	71	74	77	80	82	87	89	93	98	101
Ridgefield	59	61	62	64	66	68	70	73	76	79	81	85	88	92	96	99
Windsor	59	61	62	64	66	68	71	73	76	79	81	86	88	92	96	99
Suffield	59	60	62	64	66	68	70	73	76	79	81	85	88	92	96	99
Stonington	59	60	62	64	66	68	70	73	76	79	81	86	88	92	96	100
Deep River	58	59	61	63	65	67	70	73	76	79	81	86	89	93	97	100
Litchfield	58	59	61	63	65	67	70	72	75	78	81	85	88	92	96	99
Bridgeport	58	59	61	64	67	69	73	76	80	83	86	91	94	98	103	107
Barkhamsted	57	59	60	62	65	67	69	72	75	78	80	85	87	91	95	99
Beacon Falls	57	59	60	62	65	67	69	72	75	78	80	85	87	91	96	99
Chester	57	59	60	63	65	67	70	72	76	79	81	85	88	92	96	100
Bethlehem	57	58	60	62	64	66	69	72	75	78	80	85	87	91	95	99
Windsor Locks	57	58	60	62	64	66	69	72	75	78	81	85	88	92	96	99
Naugatuck	57	58	60	62	64	67	69	72	76	79	81	85	88	92	96	100
Shelton	57	58	60	62	64	66	69	72	75	78	80	85	87	91	96	99
Killingworth	56	57	59	62	64	66	69	71	75	78	80	85	87	91	96	99
Manchester	56	57	59	62	64	66	69	72	75	79	81	85	88	92	97	100
West Haven	56	57	59	62	64	66	69	72	76	79	81	86	89	93	97	100
Warren	56	57	59	61	63	66	68	71	74	77	80	84	87	91	95	98
Meriden	54	56	58	60	63	65	69	72	76	79	81	86	89	93	98	101
Brookfield	53	54	57	59	62	64	67	70	74	77	79	84	87	91	95	98
Union	53	54	56	59	62	64	67	70	74	77	79	84	86	91	95	98
Guilford	52	54	56	59	61	64	67	70	74	77	79	84	86	91	95	98
Cheshire	52	54	56	59	61	64	67	69	73	77	79	84	86	90	95	98
Newtown	52	53	56	58	61	63	67	69	73	77	79	84	86	91	95	98
Cromwell	52	53	56	58	61	63	67	69	73	77	79	84	87	91	95	99
Glastonbury	51	53	55	58	61	63	66	69	73	76	79	84	86	91	95	98
Franklin	51	52	55	58	60	63	66	69	73	76	79	84	86	91	95	98
Ansonia	51	52	55	58	61	63	67	70	74	77	80	85	88	92	97	100
Bethany	50	52	55	57	60	63	66	69	73	76	78	83	86	90	95	98
Newington	50	52	54	57	60	62	66	69	73	76	78	83	86	90	95	98
Bethel	50	52	54	57	60	62	66	69	73	76	79	84	86	91	96	99
Thomaston	50	51	54	57	60	62	66	69	73	76	79	84	86	91	96	99
Salem	49	51	54	56	60	62	66	68	73	76	78	83	86	90	95	98
Clinton	49	51	54	56	60	62	66	68	73	76	78	84	86	91	95	99
Southington	49	51	53	56	59	62	66	68	73	76	78	84	86	91	95	98
Oxford	49	50	53	56	59	62	65	68	72	76	78	83	86	90	95	98
Windham	48	50	53	56	60	62	66	69	74	77	79	85	88	92	97	100
Killingly	48	50	53	56	59	62	66	69	73	77	79	85	87	91	96	100
Derby	48	50	53	56	59	62	65	68	73	76	79	84	87	91	96	99
Wallingford	48	50	52	55	59	61	65	68	72	76	78	83	86	91	95	99
Montville	47	49	52	55	58	61	65	68	72	75	78	83	86	90	95	98
Columbia	47	49	52	55	58	60	64	67	72	75	77	83	86	90	95	98
Morris	46	48	51	54	57	60	64	67	71	75	77	83	85	90	95	98
Hartland	46	47	50	54	57	60	64	67	71	75	77	82	85	90	94	98
New Hartford	45	47	50	53	57	59	63	66	71	75	77	83	85	90	95	98
Portland	45	47	50	53	57	59	63	67	71	75	77	83	86	90	95	99
East Lyme	44	46	49	53	56	59	63	66	71	74	77	82	85	90	94	98
Winchester	44	46	49	53	56	59	63	66	71	75	77	83	86	90	95	98
East Granby	44	46	49	52	56	59	63	66	70	74	76	82	85	89	94	97
Simsbury	44	46	49	52	56	59	63	66	70	74	76	82	85	89	94	97
Eastford	43	45	49	52	56	58	63	66	71	74	76	82	85	90	95	98
Woodstock	43	45	49	52	56	58	63	66	71	74	77	82	85	90	95	98
Canton	43	45	49	52	56	58	63	66	70	74	76	82	85	90	95	98
East Windsor	43	45	48	52	56	58	63	66	71	74	77	82	85	90	95	98
Plainville	42	44	48	51	55	58	62	65	70	74	76	82	85	90	95	98
Somers	41	43	47	50	54	57	62	65	70	74	76	82	84	89	94	98
South Windsor	41	43	47	50	54	57	61	65	70	73	76	82	84	89	94	97
Middlefield	41	43	46	50	54	57	61	65	70	73	76	82	84	89	94	97
Sprague	41	43	46	50	54	57	61	65	70	74	76	82	85	89	95	98
Ashford	41	43	46	50	54	57	61	64	70	73	76	82	84	89	94	97

TABLE B-14: Effective Yield Per Mill Per Student By Year By Town (Continued)

(New System, Commission Recommendation of Alternative 2)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Seymour	40	42	46	50	54	56	61	64	69	73	76	82	84	89	94	97
Norwich	40	42	46	50	54	57	62	65	71	75	77	84	86	91	97	100
Monroe	40	42	46	49	53	56	61	64	69	73	75	81	84	89	94	97
East Hampton	40	42	46	50	54	57	61	64	70	74	76	82	85	90	95	98
Mansfield	40	42	46	49	53	56	61	64	69	73	75	81	84	89	94	97
Watertown	39	42	45	49	53	56	61	64	69	73	75	81	84	89	94	97
Harwinton	39	42	45	49	53	56	60	64	69	73	75	81	84	89	94	97
Granby	38	41	44	48	52	55	60	63	69	72	75	81	84	89	94	97
Burlington	38	40	44	48	52	55	60	63	68	72	75	81	84	88	94	97
North Branford	38	40	44	48	52	55	60	63	68	72	75	81	83	88	94	97
Lebanon	37	40	44	48	52	55	60	63	69	73	75	81	84	89	94	97
Bolton	37	40	43	48	52	55	60	63	68	72	75	81	84	89	94	97
Willington	37	40	43	47	52	55	59	63	68	72	74	81	83	88	93	97
Marlborough	37	39	43	47	52	55	59	63	68	72	74	81	83	88	94	97
Plymouth	37	39	43	47	52	55	59	63	68	72	75	81	84	89	94	97
Vernon	37	39	43	47	52	55	60	63	69	73	75	82	84	89	95	98
Stafford	37	39	43	47	51	55	59	63	69	73	75	81	84	89	94	98
Preston	36	38	42	46	51	54	59	62	68	72	74	81	83	88	94	97
Brooklyn	36	38	42	46	51	54	59	62	68	72	74	81	83	88	94	97
Thompson	36	38	42	46	51	54	59	63	68	72	75	81	84	89	94	98
Prospect	36	38	42	46	51	54	59	62	68	72	74	81	83	88	94	97
Ledyard	35	38	42	46	50	53	58	62	67	72	74	80	83	88	93	97
Ellington	35	37	41	46	50	53	58	62	67	72	74	80	83	88	94	97
Colchester	34	37	41	45	50	53	58	62	68	72	74	81	83	89	94	97
Durham	34	36	41	45	50	53	58	61	67	71	74	80	83	88	93	97
Hebron	34	36	40	45	49	52	58	61	67	71	73	80	83	88	93	96
Hampton	33	36	40	45	49	52	58	61	67	71	74	80	83	88	94	97
Pomfret	33	36	40	44	49	52	57	61	67	71	73	80	83	88	93	97
Andover	32	35	39	44	48	52	57	61	67	71	73	80	83	88	93	96
Voluntown	31	34	38	43	48	51	56	60	66	70	73	80	82	87	93	96
Griswold	31	34	39	43	48	52	57	61	67	71	74	81	84	89	95	98
Bristol	31	33	38	43	48	51	56	60	66	71	73	80	83	88	94	97
Plainfield	30	33	38	43	48	51	57	61	67	71	74	81	84	89	95	98
Enfield	30	33	38	42	47	51	56	60	66	70	73	80	82	88	93	97
East Haven	30	32	37	42	47	50	56	60	66	70	73	80	83	88	94	97
Scotland	29	32	36	41	46	50	55	59	65	70	72	79	82	87	92	96
Bozrah	29	31	36	41	46	50	55	59	66	70	72	80	82	88	94	97
Coventry	28	31	36	41	46	50	55	59	65	70	72	79	82	88	93	97
Lisbon	28	30	35	40	46	49	55	59	65	70	72	79	82	88	93	97
Wolcott	27	30	35	40	45	48	54	58	65	69	71	79	81	87	93	96
Tolland	27	30	34	40	45	48	54	58	65	69	71	79	81	87	93	96
Canterbury	26	29	34	39	44	48	54	58	64	69	71	79	81	87	93	96
Chaplin	22	25	31	36	42	46	52	56	63	68	70	78	81	86	93	96
Sterling	21	25	30	36	42	45	52	56	63	68	70	78	81	87	93	96
North Stonington	16	19	25	31	38	42	49	53	61	66	68	76	79	85	91	94
State Average	62.5	64.4	66.4	68.5	70.7	72.9	75.3	77.7	80.3	82.9	85.7	88.6	91.6	94.7	98.0	101.4

Table B-15 shows equalization progress for each town by presenting (1) its 1971 yield per mill per pupil and (2) what yield might be under current trends in 1975, 1980 and 1985 against (3) its total effective yield per mill per pupil in 1975, 1980 and 1985 under the Commission recommendation of $20 million per year in aid for SEEOF. This is, in effect, a summary of just how much equalization can change inequality, illustrated on a town-by-town basis.

TABLE B-15: Effective Yield Per Mill Per Student Comparison

(Recent Trend Projections vs. New System)

Town		Recent Trend Projected			New System		
	1971	1975	1980	1985	1975	1980	1985
Greenwich	178	221	291	381	182	187	192
Salisbury	119	145	186	238	123	128	133
Canaan	111	134	168	212	115	120	125
Cornwall	107	133	175	232	111	116	121
Middlebury	103	121	148	180	107	112	117
Lyme	103	124	157	198	107	112	117
Roxbury	101	125	163	212	105	110	115

TABLE B-15: Effective Yield Per Mill Per Student Comparison (Continued)

(Recent Trend Projections vs. New System)

Town		Recent Trend Projected			New System		
	1971	1975	1980	1985	1975	1980	1985
Haddam	100	118	144	176	104	109	114
Westport	98	113	135	161	102	107	112
Darien	97	113	137	167	101	106	111
New Canaan	93	98	106	114	97	102	107
Stamford	92	109	133	162	96	101	106
Sherman	92	98	105	113	96	101	106
Essex	89	110	142	184	93	98	103
Old Saybrook	88	108	141	183	92	97	102
Middletown	87	105	132	166	91	96	101
West Hartford	86	93	104	115	90	95	100
Southbury	85	114	164	237	89	94	99
Westbrook	85	100	122	149	89	94	100
Easton	85	75	65	55	89	94	99
Berlin	83	97	118	143	87	92	98
Sharon	82	97	119	147	86	91	99
Hartford	82	88	96	104	86	94	110
Fairfield	81	92	106	123	85	90	98
Old Lyme	81	102	135	178	85	90	98
Stratford	79	91	109	130	83	88	98
Hamden	78	90	107	127	82	87	98
Kent	77	91	111	136	81	86	98
Bloomfield	77	91	113	139	81	86	98
New Haven	76	76	76	76	80	93	110
Rocky Hill	75	89	110	135	79	84	98
Wilton	74	88	109	136	78	83	97
Redding	74	89	111	140	78	83	98
Waterford	74	84	98	115	78	84	98
Branford	73	87	109	135	77	83	98
Groton	73	96	134	188	77	84	98
Bridgewater	72	83	98	116	76	83	97
Washington	72	86	108	135	76	83	98
Woodbridge	71	84	102	125	75	83	97
Weston	71	91	125	172	75	82	97
Farmington	71	88	115	150	75	83	97
Norwalk	70	87	114	149	74	84	100
Wethersfield	69	76	85	95	73	82	97
Orange	69	80	96	116	73	82	97
North Haven	69	81	99	121	73	82	97
Avon	69	80	97	117	73	82	97
New Britain	68	60	52	44	73	85	101
North Canaan	67	87	121	168	71	82	97
New Milford	66	78	95	116	71	82	98
Trumbull	64	75	90	109	70	81	97
New Fairfield	64	75	91	111	69	81	97
Torrington	63	70	80	91	70	82	98
East Hartford	63	74	91	111	70	82	98
Madison	63	83	116	163	69	81	97
Milford	63	74	91	111	69	82	97
New London	63	78	101	131	71	85	102
East Haddam	63	83	119	170	69	82	98
Goshen	62	93	152	249	69	81	97
Woodbury	62	69	80	91	69	81	97
Norfolk	62	76	100	130	68	81	97
Waterbury	61	72	88	108	70	85	102
Danbury	61	68	80	93	68	82	98
Colebrook	60	69	82	97	68	81	97
Putnam	59	70	86	106	68	82	98

TABLE B-15: Effective Yield Per Mill Per Student Comparison (Continued)

(Recent Trend Projections vs. New System)

Town		Recent Trend Projected			New System		
	1971	1975	1980	1985	1975	1980	1985
Ridgefield	59	60	61	61	67	80	96
Windsor	59	67	78	91	67	81	97
Suffield	59	69	85	105	67	80	96
Stonington	59	69	84	103	67	81	97
Deep River	58	59	60	61	67	81	97
Litchfield	58	70	90	116	66	80	96
Bridgeport	58	60	64	68	69	86	104
Barkhamsted	57	73	99	135	66	80	96
Beacon Falls	57	67	82	101	66	80	96
Chester	57	70	90	116	66	80	97
Bethlehem	57	69	88	113	66	80	96
Windsor Locks	57	65	77	90	66	80	97
Naugatuck	57	66	80	97	66	80	97
Shelton	57	65	78	93	66	80	96
Killingworth	56	75	108	156	66	80	96
Manchester	56	66	82	101	66	80	97
West Haven	56	65	79	95	66	81	98
Warren	56	56	56	56	65	79	96
Meriden	54	61	71	83	65	81	98
Brookfield	53	59	67	78	64	79	96
Union	53	62	77	90	64	79	96
Guilford	52	64	81	104	64	79	96
Cheshire	52	60	71	84	63	79	96
Newtown	52	56	61	67	63	79	96
Cromwell	52	59	69	81	63	79	96
Glastonbury	51	67	94	132	63	79	96
Franklin	51	58	69	81	63	79	96
Ansonia	51	59	73	89	63	80	98
Bethany	50	57	66	76	63	78	96
Newington	50	59	72	88	63	78	96
Bethel	50	61	78	100	62	79	96
Thomaston	50	55	63	72	62	79	96
Salem	49	58	71	88	62	78	96
Clinton	49	58	71	86	62	79	96
Southington	49	58	70	86	62	79	96
Oxford	49	59	75	96	63	78	96
Windham	48	54	63	73	62	80	98
Killingly	48	51	54	58	62	79	97
Derby	48	57	69	85	62	79	97
Wallingford	48	55	66	78	61	78	96
Montville	47	56	70	87	61	78	96
Columbia	47	51	58	64	60	78	96
Morris	46	52	61	71	60	78	96
Hartland	46	47	48	50	60	77	95
New Hartford	45	52	64	78	60	78	95
Portland	45	47	50	53	60	78	96
East Lyme	44	52	63	77	60	77	95
Winchester	44	50	59	70	59	78	96
East Granby	44	49	55	63	59	77	95
Simsbury	44	48	55	62	59	77	95
Eastford	43	51	62	76	59	77	95
Woodstock	43	51	62	76	59	77	96
Canton	43	50	61	73	59	77	95
East Windsor	43	51	61	75	59	77	96
Plainville	42	49	60	74	58	77	96
Somers	41	49	60	73	58	77	95
South Windsor	41	47	54	64	58	77	95

TABLE B-15: Effective Yield Per Mill Per Student Comparison (Continued)

(Recent Trend Projections vs. New System)

Town	Recent Trend Projected			New System		
	1971	1975	1980	1985	1975	1980	1985
Middlefield	41	48	58	71	58	77	95
Sprague	41	40	40	39	58	77	95
Ashford	41	46	53	61	58	77	95
Seymour	40	39	38	37	59	77	95
Norwich	40	43	48	53	57	78	98
Monroe	40	47	57	70	58	76	95
East Hampton	40	60	101	170	57	77	96
Mansfield	40	45	53	62	57	76	95
Watertown	39	43	50	57	57	76	95
Harwinton	39	45	52	61	57	76	95
Granby	38	45	56	70	56	76	95
Burlington	38	45	55	68	56	76	95
North Branford	38	44	53	64	56	76	95
Lebanon	37	47	62	81	56	76	95
Bolton	37	44	55	67	56	76	95
Willington	37	42	49	57	56	76	94
Marlborough	37	49	68	96	56	76	95
Plymouth	37	40	43	47	56	76	95
Vernon	37	43	52	62	56	77	96
Stafford	37	43	53	64	55	76	95
Preston	36	45	60	79	55	76	95
Brooklyn	36	41	48	57	56	76	95
Thompson	36	39	44	50	55	76	95
Prospect	36	41	48	58	55	76	95
Ledyard	35	42	51	64	55	75	94
Ellington	35	43	56	73	55	75	95
Colchester	34	39	46	55	55	76	95
Durham	34	42	55	73	54	75	94
Hebron	34	37	42	48	54	75	94
Hampton	33	42	56	76	54	75	95
Pomfret	33	39	47	58	54	75	94
Andover	32	35	40	44	53	75	94
Voluntown	31	37	45	55	54	75	94
Griswold	31	35	41	48	53	76	96
Bristol	31	36	44	54	53	75	95
Plainfield	30	32	35	38	53	76	96
Enfield	30	32	35	37	53	75	94
East Haven	30	35	43	52	52	75	95
Scotland	29	31	35	38	52	74	94
Bozrah	29	34	41	50	52	75	95
Coventry	28	33	41	50	52	75	94
Lisbon	28	32	40	48	51	74	95
Wolcott	27	31	36	42	51	74	94
Tolland	27	31	38	47	50	74	94
Canterbury	26	33	46	63	49	74	94
Chaplin	22	23	23	24	48	73	94
Sterling	21	26	35	45	45	73	94
North Stonington	16	17	18	19	38	71	93

Table B-16 is an illustrative example on a town-by-town basis, of what equalization could bring about for tax rates and school expenditures. (This table deals only with local and SEEOF property tax revenue and does not include the $300-$400 additional State and Federal aid expected to continue or increase in the future.) Table B-16 shows current (1970-71) local school funds and effective mill rates for school support on current full market value, followed by comparable figures of what each might be in 1985 under the alternative recommended by the Commission. This table shows

that all towns will be able to tax at lower rates or spend more by 1985 — a not surprising conclusion, but still informative when the significant amount of change is examined. More important, perhaps, the table shows that, whereas both available school funds now vary by as much as 100% and school tax rates by a multiple of 5, the new system could bring both much more closely together by 1985.

TABLE B-16: Illustrative School Expenditure and School Tax Rates

Town	Property Tax Yield for Schools Per Student, 1971	Property Tax School Rate In Mills 1971	Property Tax Yield for Schools Per Student, 1985	Property Tax School Rate In Mills, 1985	Town	Property Tax Yield for Schools Per Student, 1971	Property Tax School Rate In Mills 1971	Property Tax Yield for Schools Per Student, 1985	Property Tax School Rate In Mills, 1985
Greenwich	1027	5.8	2262	11.8	Torrington	614	9.7	1676	17.2
Salisbury	931	7.9	2050	15.5	East Hartford	945	14.9	2080	21.4
Canaan	1128	10.1	2483	19.8	Ridgefield	934	15.7	2050	21.4
Cornwall	992	9.3	2185	18.1	Windsor	745	12.5	1747	18.2
Middlebury	708	6.9	1727	14.8	Suffield	659	11.2	1701	17.7
Lyme	889	8.7	1957	16.8	Stonington	717	12.2	1732	18.0
Roxbury	935	9.2	2059	17.8	Deep River	782	13.5	1767	18.2
Haddam	685	6.8	1714	15.0	Litchfield	926	16.1	2038	21.3
Westport	1199	12.2	2639	23.5	Bridgeport	601	10.5	1669	16.2
Darien	1384	14.3	3047	27.6	Barkhamsted	806	14.1	1780	18.6
New Canaan	1176	12.7	2591	24.3	Beacon Falls	486	8.5	1606	16.8
Stamford	962	10.4	2118	19.9	Chester	785	13.7	1769	18.4
Sherman	815	8.9	1794	16.9	Bethlehem	669	11.8	1706	17.9
Essex	905	10.1	1992	19.3	Windsor Locks	698	12.3	1722	17.9
Old Saybrook	861	9.8	1896	18.6	Naugatuck	567	10.0	1651	17.1
Middletown	742	8.5	1745	17.2	Shelton	531	9.4	1631	17.0
West Hartford	1081	12.6	2381	23.9	Killingworth	562	10.0	1648	17.2
Southbury	708	8.3	1727	17.4	Manchester	726	13.0	1737	18.0
Westbrook	753	8.9	1752	17.5	West Haven	761	13.7	1756	18.1
Easton	1074	12.6	2365	23.9	Warren	905	16.3	1992	20.9
Berlin	762	9.2	1756	17.9	Meriden	583	10.8	1659	17.0
Sharon	1060	12.9	2334	23.6	Brookfield	815	15.4	1794	18.9
Hartford	1015	12.4	2234	20.3	Union	686	13.1	1715	18.0
Fairfield	880	10.8	1938	19.8	Guilford	831	15.9	1820	19.2
Old Lyme	858	10.6	1889	19.2	Cheshire	788	15.1	1771	18.6
Stratford	820	10.4	1805	18.4	Newtown	891	17.2	1962	20.6
Hamden	942	12.0	2073	21.1	Cromwell	602	11.7	1670	18.0
Kent	913	11.8	2010	20.6	Glastonbury	740	14.4	1744	18.3
Bloomfield	974	12.7	2146	21.9	Franklin	565	11.1	1649	17.3
New Haven	875	11.5	1927	17.6	Ansonia	544	10.8	1638	16.9
Rocky Hill	972	13.0	2141	21.9	Bethany	867	17.2	1908	20.1
Wilton	1209	16.3	2663	27.4	Newington	862	17.1	1899	20.0
Redding	1070	14.5	2355	24.2	Bethel	810	16.3	1784	18.7
Waterford	670	9.1	1706	17.4	Thomaston	551	11.1	1642	17.2
Branford	701	9.6	1724	17.7	Salem	658	13.4	1760	17.9
Groton	490	6.7	1609	16.4	Clinton	657	13.4	1699	17.8
Bridgewater	936	12.9	2062	21.3	Southington	586	12.0	1661	17.4
Washington	938	13.1	2066	21.2	Oxford	573	11.8	1654	17.4
Woodbridge	1037	14.6	2283	23.6	Windham	738	15.3	1744	17.9
Weston	1115	15.7	2455	25.4	Killingly	605	12.5	1671	17.3
Farmington	896	12.6	1973	20.3	Derby	615	12.8	1676	17.5
Norwalk	802	11.5	1778	17.9	Wallingford	632	13.2	1686	17.7
Wethersfield	865	12.5	1906	19.7	Montville	576	12.2	1655	17.4
Orange	927	13.5	2041	21.1	Columbia	857	18.3	1887	19.9
North Haven	975	14.2	2148	22.2	Morris	906	19.8	1994	21.0
Avon	944	13.7	2078	21.5	Hartland	707	15.5	1726	18.3
New Britain	603	8.9	1670	16.6	New Hartford	964	21.5	2122	22.4
North Canaan	883	13.2	1945	20.1	Portland	706	15.8	1726	18.1
New Milford	774	11.7	1763	18.1	East Lyme	713	16.2	1730	18.3
Trumbull	756	11.8	1753	18.2	Winchester	585	13.3	1660	17.4
New Fairfield	878	13.8	1934	20.0	East Granby	836	19.0	1840	19.6

TABLE B-16: Illustrative School Expenditure and School Tax Rates (Cont.)

Town	Property Tax Yield for Schools Per Student, 1971	Property Tax School Rate In Mills 1971	Property Tax Yield for Schools Per Student, 1985	Property Tax School Rate In Mills, 1985
Madison	706	11.2	1726	17.9
Milford	645	10.2	1693	17.5
New London	922	14.7	2029	19.9
East Haddam	760	11.2	1723	17.7
Goshen	904	14.5	1989	20.7
Woodbury	670	10.8	1706	17.7
Norfolk	787	12.8	1770	18.4
Waterbury	708	11.5	1727	17.0
Danbury	772	12.8	1762	18.0
Colebrook	910	15.2	2003	20.7
Putnam	511	8.6	1620	16.6
Simsbury	725	16.5	1736	18.4
Eastford	719	16.6	1733	18.3
Woodstock	618	14.3	1678	17.7
Canton	760	17.6	1755	18.6
East Windsor	789	18.3	1771	18.7
Plainville	664	15.8	1703	18.0
Somers	691	16.8	1718	18.2
South Windsor	770	18.8	1761	18.7
Middlefield	780	19.2	1766	18.7
Sprague	553	13.6	1643	17.4
Ashford	509	12.6	1619	17.2
Seymour	544	13.6	1638	17.4
Norwich	597	14.9	1667	17.2
Monroe	714	17.9	1730	18.4
East Hampton	711	17.8	1729	18.2
Mansfield	836	20.9	1840	19.6
Watertown	617	15.6	1678	17.9
Harwinton	743	18.8	1746	18.6
Granby	699	18.3	1722	18.4
Burlington	734	19.4	1741	18.6
North Branford	606	16.1	1672	17.8
Lebanon	570	15.2	1652	17.5
Bolton	790	21.2	1772	18.9
Willington	727	19.5	1737	18.6
Marlborough	1039	28.0	2288	24.4
Plymouth	518	14.0	1624	17.3
Vernon	699	19.0	1722	18.2
Stafford	638	17.4	1689	17.9
Preston	662	18.5	1702	18.2
Brooklyn	584	16.3	1660	17.7
Thompson	552	15.5	1643	17.4
Prospect	487	13.7	1607	17.1
Ledyard	566	16.1	1650	17.7
Ellington	824	23.6	1815	19.4
Colchester	730	21.3	1739	18.5
Durham	780	23.0	1766	18.9
Hebron	766	22.9	1759	18.9
Hampton	690	20.7	1717	18.3
Pomfret	562	17.1	1648	17.6
Andover	849	25.1	1782	19.1
Voluntown	93	16.0	1616	17.4
Griswold	377	12.0	1547	16.4
Bristol	619	20.2	1679	17.9
Plainfield	478	15.7	1602	16.9
Enfield	555	18.3	1644	17.6
East Haven	585	19.7	1660	17.7
Scotland	736	25.3	1743	18.8
Bozrah	539	18.9	1635	17.4
Coventry	638	22.5	1689	18.1
Lisbon	469	17.0	1579	17.1
Wolcott	503	18.7	1616	17.4
Tolland	662	24.8	1702	18.4
Canterbury	408	15.8	1564	16.9
Chaplin	724	32.5	1736	18.8
Sterling	437	20.5	1580	17.0
North Stonington	508	31.8	1618	17.7

As one example of how the new system might work, the next-to-last town of Sterling in Table B-16 now has $437 per student available from local funds, and the 1971 school tax rate is 20.5 mills. The 1985 totals could show an increase in school funds to $1,580 (near the likely State average for 1985) while the tax rate could fall to 17.0 mills—both at the same time. Or, of course, the town might choose a lesser rate of increase in school expenditures, which would permit an even greater decrease in school tax rate.

Using this example to interpret the comparisons, a careful examination will show just how much increase in school funds a town could choose (depending entirely upon its own decisions) and, in many cases, tax reductions even with substantive increases in school funds.

The next result of the new system will be, then, both (1) more available funds and lower school tax rates for some towns, or more funds at similar tax rates for others (or less increase and more tax reductions for any that chose that alternative), and (2) a likely narrowing of current differences in spending and tax rates (because gaps are now created by the system of local wealth variation and the effects of this will be neutralized). Overall, the new system means more equity and more opportunity for most towns and their students — the basic objective of the new system.

Impact on Central Cities

One point which has not been developed at any length thus far is the special problem of the cen-

tral city. We have in the State of Connecticut several cities where tax rates are very high and educational expenditures are also relatively high — in contrast to the normal pattern in the State where high expenditures usually accompany low tax rates, or vice versa. This situation does not mean, however, that central cities do not have significant tax and expenditure problems. Almost everyone is aware of the financial plight of the cities: budgets are tight and yet taxes increase every year, leading to a cycle of higher taxes driving out middle-income and business taxpayers and leaving fewer and fewer to carry the burden of city services.

The central city tax crisis is a problem which the Commission has recognized and with which few would disagree. But this is not a problem of the educational system. Central city tax rates are high — and they are very high, 2 to 3 times other towns in the State — not because of school expenditures, but because central cities must spend very large amounts on services other than education. Further aid to cities is necessary to enable them to reduce their taxes to a level competitive with other towns in the State. But the need is for aid based on extra general government needs; a school finance program should not be the primary method of solving this problem.

In spite of this, however, the ideas advanced by the Commission are not without significance for the cities. The proposal suggested in these pages can be of substantial aid to some of our central cities and in the long run may be of considerable significance to all of them. Specifically, this program could operate to aid our central cities in three respects: serving as insurance against falling property value per student, establishing the principle of special aid for special educational needs, and removing incentive for exclusionary zoning.

While it is not anticipated that great gains will come to our central cities in the immediate future from implementation of the Commission's program, a careful examination of the trend in some of our central cities would suggest that the new program of sharing increases in tax base throughout the State may be of benefit to central cities in the long run. In some cases, it looks fairly clear that significant benefits will accrue eventually. In other cases, the new system may be thought of as an insurance policy: that if property values per student stop rising, or rise more slowly than the State average, a city is assured of a growth rate equal to the State average. The central city, in effect, need never fear falling below the State average as it might if some recent or projected trends were to prevail.

The principle of reimbursing school districts for special costs of special educational needs is also important for our central cities. The bonus of 25% for students who need special educational services — some of these students being found in all income groups and all towns, others being concentrated in certain areas, in many cases central cities — is an important principle for the central city school systems themselves and for broader trends in the State. This principle permits the central city to expect its tax revenues to produce an extra amount for these students with special needs, and thus guarantee the extra funds which it is believed are necessary for effective education among some of our inner-city students. In addition, the principle of giving extra funds for any students in need of extra attention in any town in the State helps provide a bit more incentive for suburban schools to be open to new residents with children needing special educational help which would be paid for by the bonus.

The last benefit of this program to towns is the effect on current practices like exclusionary zoning. While the new finance system forces no one to move, it removes current incentives for a town to exclude those whose home value is such that taxes paid do not equal the cost of education for children living in those homes. Thus, to the extent existing financial incentives may now cause suburban towns to keep out lower-income persons from central cities, the voluntary changes in suburbs induced by the new program may be very beneficial to the cities.

Overall, the impact of this new program on cities might be termed mildly favorable — not aid of the magnitude needed, but useful help related to the substance of the school problem. *No city taxpayer should oppose this program, for it is beneficial to him as well as all others, but this necessary reform should not obscure the important special property tax needs of the cities.*

Timetable for Implementation

In designing this new mechanism, the Commission has assumed, and will encourage, movement toward operation as quickly as possible. Each year that goes by means more children suffering the

inequality, taxpayers carrying a heavy tax burden longer, and a more costly bill and or a longer period to correct the problem.

At the same time, however, this mechanism and the means by which it can be implemented have been designed to come into operation over several years for good reason. In addition to the prohibitive cost of immediate equality — or the unhappy alternative of suddenly cutting expenditures in some towns — an overly-rapid changeover could be harmful to many. Most important, it is believed that low-expenditure school districts should be given aid to catch up at a moderate pace in order to plan carefully how to spend the extra funds (or whether to take a tax cut, which will undoubtedly be desirable in some towns). High expenditure towns should be given time to slow their rate of expenditure increase to make large tax increases unnecessary if that alternative is desired. And property owners in towns where school spending and or tax rates are changing due to the program should not be subjected to the windfall losses and gains in property value that overly-rapid equalization might produce.

Moderate speed, then, is the suggestion, but an immediate beginning is critical. For the costs of delay are considerable, and if action does not come, it may be that the worsening situation will lead us to sudden and drastic action as the price of delay now.

Implementation of the New System

This section is devoted to a series of questions that the legislative and the executive branches of our State government will need to address before passing upon the Commission recommendations. These considerations include the administration of SEEOF, the mechanics of SEEOF operation, and a variety of miscellaneous questions, comments, and unresolved issues to be answered or noted as deserving further analysis.

Administration of the Equal Opportunity Fund

The Commission makes no recommendation as to the personnel to staff SEEOF, the selection of its leadership, or the structure of the group. Rather, the Commission will simply define the mandate and review the tasks of SEEOF, then draw some evident conclusions about how it might be established.

1. The job of SEEOF is simply to establish base data on tax rates and school finance receipts in cooperation with the towns and the State assessment analysts, then collect and disburse funds in accordance with the Act which incorporates mechanisms detailed in this Report. The job of SEEOF is, therefore, primarily a technical one — the mechanisms are automatic because each town is entitled to certain funds and no applications are to be made, weighed, or politically influenced.

2. The SEEOF mandate is to distribute as much as it can each year by stepping up the reimbursement schedule annually to use up all income, but never to go into deficit. SEEOF would determine State average yield each year and then distribute a uniform fraction of the shortfall to towns failing to achieve that yield; these figures and the fraction would be increased as quickly as possible and eventually reach full reimbursement to the State average (or, if outside funds were available, to a schedule in excess of the State average).

As the above description implies, SEEOF should not be a political body. It may be that experts of education and educational finance should be included in SEEOF to assure co-ordination — the Commission favors top-quality leadership, perhaps linked to existing state school officials, in order to provide SEEOF with the capacity to continuously monitor the progress and needs of the equalization program. But the fundamental task of SEEOF is the administration of a technical and automatic mechanism, and it is a key element of the Commission recommendation that SEEOF be set up and governed by such automatic, rather than political *ad hoc*, equalization mechanisms.

How SEEOF Would Operate

The following steps describe the task and actual operation of SEEOF. Inpart, this is a restatement of points explained earlier, but it is also an administrative description of tasks, procedures, and concepts.

1. In the first year, SEEOF and assessment

officers analyze effective tax rates and the school system portion of total property tax collections to determine Base Year Tax Rate and Base Year Tax Yield.

2. Each year, SEEOF informs each town what the State average yield is expected to be and what portion of any shortfall in local yield vs. State average SEEOF will reimburse. SEEOF will determine those numbers by analysis of assessment data and expenditures, tax rates, and student enrollment in each town — SEEOF setting figures that will balance its own income and expenditure.

3. Each town will calculate (a) its Base Year Yield per mill per student, increased by $1 each year, and (b) if that total falls below that State average figure published by SEEOF, add to that yield a fraction, as announced by SEEOF, of the differential. From all of this, the town budget planner can derive a figure that tells how much property tax revenue — local funds plus SEEOF reimbursements — it can expect on a per student per mill basis.

4. School officials will then translate this yield per mill per student figure into a schedule of mill rates and expenditures — e.g., the net yield per mill per student might be $65, which tells the town selectmen or the town meeting that the town can expect the following school property tax funds according to the mill rate chosen:

6 mills equal to $390 per student
7 mills equal to $455 per student
8 mills equal to $520 per student
9 mills equal to $585 per student
10 mills equal to $650 per student
12 mills equal to $780 per student
14 mills equal to $910 per student
16 mills equal to $1,040 per student
18 mills equal to $1,170 per student
20 mills equal to $1,300 per student

Fractional mill rates or rates not shown can be calculated at the ratio of 1 mill equal to $65. From this, the town seeking, for example, $900 per student can see it needs a mill rate of just under 14 mills.

5. When each town has set its mill rate and tax collections begin, the town will turn over to SEEOF all amounts in excess of Base Year Yield per mill, and SEEOF will return (a) the growth factor payment equal to $1 per mill per student in Year One, $2 in Year Two, etc. (increase of $1 each year); and (b) the stipulated fraction of shortfall for those towns where Base Year Yield plus the growth factor still fall below State average. Both payments are calculated on a per mill per student basis, then multiplied by the mill rate in effect and by the number of students.

6. Each year, SEEOF will make these payments and then revise its State average schedule and fraction of reimbursement so as to keep its cumulative income and expenditures in balance. The essence of its job is gathering and analyzing data on actual property tax collections by town and then predicting the inflow and outflow of the fund at various possible estimates of the average and fractions for reimbursement.

APPENDIX A

Other Issues and the Agenda For Future Study

Realistically, the Commission could not hope to tie down every detail of an innovative system of reform. It is hoped that enough information is presented in this Report to stimulate discussion of the proposal and to promote understanding of the problem and the suggested solution.

Realizing that certain questions deserve further analysis, the Commission recommends that *further study continue after implementation of* the new school finance system has begun. Such study should be undertaken by a special body charged with the task of reviewing the efficiency and effectiveness of school programs, expenditures, and State aid. There should be both substantive review, in effect, of specific elements and quality of our educational efforts both at the State and local levels.

Some of the matters with which further study might be concerned are, among others:

1. *State Categorical Aid Programs:* Whether new categorical grants to localities are needed to give school districts more incentive to undertake needed programs or to encourage any particular innovations which would enhance the efficiency and/or effectiveness of individual school districts.
2. *Cost Differentials:* No allowance has been made for the differentials in cost among towns or sections of the State. In general it can be argued that differences in the need for capital expenditures, varied debt service loads, transportation requirements, or simply cost of living differentials as reflected in teachers' salaries and the like all point to necessary modifications in the simple equalization formula. Since all towns are relatively better off than others in some of these, and worse off in others, no adjustment is probably a better answer than complex equalization efforts in light of the comparatively small net effects. Overall, it is believed that this will not become too severe a problem, but further study is appropriate once substantial equity has been achieved and differentials of a smaller magnitude, like cost, become more important.
3. *School Bonds:* It is not anticipated that the SEEOF mechanism would affect local school bonds. In Connecticut, the bonds are backed by the full faith and credit of the town, and funds would be available as needed through local taxes to pay debt service much as in the current system. However, further study may be appropriate on the questions of changes in the State role relative to school construction costs.

Note on Data Analysis and Projections

The basic problem with any current data on property taxes, and even more so on future projections, is one of uncertainty. Although it is critical for the purposes of an equalization study, or a court case like the *Serrano* case, it is almost impossible to produce completely accurate data which would compare tax burdens in differing towns. Projections, on the other hand, can only have a moderate degree of accuracy because future tax rates and future revenues associated with any tax rate are significantly affected by local political decisions and a variety of economic currents and cross-currents which no short-term study can begin to take into account. Finally, all data of whatever sort suffer from the problems of dealing with a variety of numbers from 169 different jurisdictions — collection of data often lags behind by a year or two or more, varied definitions make comparison of even relatively straightforward numbers rather difficult, and just gathering and analyzing massive amounts of data can be an overwhelming job.

For these reasons, it should be emphasized most strongly that the data produced here, although based on real numbers, are only estimates of tax burdens now and future trends or altered trends

in the individual towns. On the other hand, it can be emphasized that the aggregate picture is reasonably accurate. Although the tax rate for one town may, in fact, be somewhat more or less than what is shown in these pages, there is likely to be a compensati change in some other town. The importance of the current data is simply showing relative differences among the towns, differences which have been shown for a few towns at a time by other studies and which are very apparent from the pattern which exists today, no matter how analyzed. Data on the future, again, can be relied upon relatively well in the aggregate, although many factors will change any prediction of the current time.

Outlined below are some major assumptions and methods by which data were generated for this report. This is not a complete or exhaustive study, but the methods by which conclusions were reached will show there is enough data to formulate a plan for SEEOF, leaving the projections to be revised within the framework of experience.

A. *Current Data.*

1. School expenditures, both past and present, are taken from the Connecticut Public Expenditure Council reports which show total expenditures and net current expenditures, each of these broken down by source of funds (Federal, State or local).

2. Current tax rates are calculated by adjusting official mill rates for (a) assessment percentage variation, bringing all fractional assessments up to 100% ; and (b) increasing value since latest revaluation. Most tax rates shown refer to that portion attributed to schools of the total current mill rate adjusted to equal mills on current full market value of taxable property.

3. Current property values per student, as well as projections for the future, were calculated by analyzing the growth over past years according to (a) that portion which was reflected on a yearly basis by means of addition (of new construction) to the grand list and (b) that increment of value in existing property which is only reflected at the time of each valuation.

B. *Projections.*

1. In general, projections assume growth of property values at past rates. The division of past growth in property values explained above permitted the closest possible fit of actual valuation to reported value in 1971, and subsequent years were predicted on growth trends previous to 1971. This projection and analysis refer to property value per student in all cases, thereby recognizing that the largest increment of property value is associated with population growth and is correlated with number of students.

2. Property value predictions for the future, by following the trends of the past 10 to 15 years, implicitly assume that increases in value (both appreciation of existing property and new growth and new wealth on a per capita basis) would be about the same as during the past 10 to 15 years. The basic assumption was an inflation rate equal to the 1960's (approximately 3%) and a rate of building value inflation slightly in excess of that consumer price inflation figure.

C. *Equal Opportunity Fund Data.*

1. The objective of the data explained above was to predict what yield per mill per student would be in the towns during the next 15 years in order to show what demands would be made upon the equal opportunity fund under the program outlined in the text. The operating principle of SEEOF, as explained, would be that all income (as nearly as possible) would be paid out to the towns each year — certainly that the cumulative balance would not grow significantly above zero. Data shown in the text to demonstrate effective per mill per pupil yield, therefore, assume that SEEOF is reimbursing towns as much as SEEOF revenues would allow.

2. In order to predict exactly how much would flow into SEEOF, it is necessary to know (a) what SEEOF would receive from, or what SEEOF would pay to, each town on each mill of the school rate for each student; (b) how many students would be in each town; and (c) what the mill rate would be. The calculation of the first item, differential between what the town pays to SEEOF and receives from SEEOF, is derived from predictions and the plan as outlined in the text. Recent trends of school enrollment growth appear to be satisfactory on that item so a simple trend has been used (although more sophisticated means might be devised for even better predictions.) Predicting mill rates (in effect, school expenditures) is a much more hazardous undertaking in that this reflects changing political decisions in the towns which will interact with the level of SEEOF activity. Thus, a fairly safe assumption

(in terms of SEEOF needs and revenues) was made, that growth of school expenditures (and thus mill rates) would proceed at a relatively high rate in the low expenditure towns and at a reduced rate in the high expenditure towns. If, as is very likely, aggregate school expenditures increase more quickly, more money will come into SEEOF from the high tax-base towns and more money will be paid out to the low tax-base towns: if the high tax-base towns increase their expenditures faster, that would increase SEEOF's ability to reimburse the lower tax-rate-base towns in that the revenue of SEEOF would be growing faster than its projected payments.

3. Special need categories for the bonus as outlined in the text have been left for definition at a later date, so estimates were used by town. These estimates assumed approximately 30% of the students in the two largest cities would be entitled to the bonus, and declining percentages were used to a minimum of 5%; these estimates were based upon current data used by the State in calculating SADC grants (existing aid program for disadvantaged students).

APPENDIX B

Dissent of Philip M. Drake

With respect to Part B of Volume II of the Commission's Report, I find myself unable to agree with the majority of my colleagues. I do not share the concern that the present method of financing school expenditures in Connecticut will be found to be unconstitutional and, therefore, I do not join in their recommendations to adopt a method of school financing in Connecticut as set forth in Part B.

I believe the proposal for equalization as contained in Part B is far superior to full state funding. If the present method of financing education were to be declared unconstitutional, I would support the method proposed in Part B as an alternative to full state funding.

While the proponents of full state funding and equalization maintain the existing system does not provide an equal opportunity, I am of the belief that the alternatives would be disastrous for the citizens of the State of Connecticut, as it would (a) increase the cost of education tremendously, (b) legislate a practical ceiling on the spending for education which would in many areas be equivalent to legislating mediocrity in education, and (c) result in a gradual erosion of local autonomy which school boards of education and our communities now have. While the proponents talk of providing equal educational opportunity, they are in effect saying that equal dollars are going to produce equal education, a proposition which I cannot accept.

APPENDIX C

Objection to Sections in Vol. II, Part B, Titled "School Resources and Equal Educational Opportunity" and "Impact of the Current School Finance System on Community Development"

We support the "equal educational opportunity system" recommendation of the Commission for persuasive reasons which were considered and discussed by the Commission, among these being:

The differences in resources available to the various towns in Connecticut to support public education can lead to unequal educational opportunities.

Awareness of court attacks in the area of school financing and concern that if progress is not made to correct the problem of resources, and if present court decisions are upheld, suddenly imposed judicial mandates might disrupt our educational system.

Certain school systems have additional special needs which they cannot completely finance on a local basis.

A "local option plan" is far more desirable than full state funding with its implications of probable drastically increased costs to the taxpayers and the loss of the rights of the citizens of each town of a clearer voice in determining their educational needs.

The sections of the Report titled "School Resources and Equal Education Opportunity," and "Impact of the Current School Finance System," however, are devoted to a great extent to a number of other issues and problems which were not defined or discussed by the Commission. Consultants were heavily relied on to draft these sections, which have been accepted by a majority of the Commission. While these issues and problems deserve the concern and attention of all citizens, their inclusion in this part of the Report can be misinterpreted as indicating that the Commission carefully considered them in its deliberations. This was not done.

We feel that those reasons which were carefully considered by the Commission in themselves support its conclusions and recommendations and therefore object to the inclusion of the Sections "School Resources and Equal Educational Opportunities" and "Impact of the Current School Finance System" in their present form.

GERALD J. MCCANN

CARL G. WARD

FOOTNOTES TO PART B

1 Charles L. Ames, "History of Education in Connecticut from 1818-1925, Part 1," *History of Connecticut*, Norris Osborn (New York: The States History Company, 1925), p. 178.

2 *Ibid.*

3 *Pattern for Financing Connecticut Schools*, Connecticut Education Association, (January, 1965), p. 2.

4 *Ibid.*

5 *Ibid.*

6 *Ibid.*, p. 3.

7 Ames, pp. 186, 189.

8 *Ibid.*, p. 189.

9 *Pattern for Financing Connecticut Schools*, p. 3.

10 *Ibid.*, p. 4.

11 *Local Public School Expenses and State Aid in Connecticut, School Years 1966-67 through 1970-71*, Connecticut Public Expenditure Council, Inc. (January, 1972), p. 2.

12 337 F. Supp. 280 (W. D. Tex. 1971).

13 5 Cal. 3rd 584, 487 P. 2d 1241 (1971).

14 *Serrano v. Priest*, 487 P. 2d 1241 (1971) at 1249.

15 *Ibid.* at 1247.

16 *Ibid.* at 1254.

17 *Ibid.* at 1266.

18 *Brown v. Board of Education*, 347 U.S. 483 at 493.

19 *Rodriguez v. San Antonio Independent School District* 337 F. Supp. 280 (W. D. Tex. 1971) at 284.

20 *See*, for example, Worth Bateman, and Peter Brown, "Some Reflections on *Serrano v. Priest*," *Journal of Urban Law*, Vol. 49, Issue 4, (May, 1972). A note entitled "A Statistical Analysis of the School Finance Decisions: On Winning Battles and Losing Wars" by Michael Churgin, Peter Ehrenberg, and Peter Grossi, Jr. will appear in a Fall 1972 issue of the *Yale Law Journal*. This article treats the premises concerning individual wealth, district property values, and local educational expenditures upon which the *Serrano* and *Rodriguez* line of cases are based. There is particular emphasis on Connecticut which the authors find to be "perhaps the archtype of a pre-Serrano system of educational finance."

21 *Local Public School Expenses and State Aid in Connecticut*, pp. 30-31.

22 Advisory Commission on Intergovernmental Relations, *State-Local Finances: Significant Features and Suggested Legislation*, (1972), p. 13.

23 *Local Public School Expenses and State Aid in Connecticut*, *Connecticut Public Expenditure Council*, pp. 30-31.

24 *Outline of Financial Grants to States and Towns for the Support of Education*, Connecticut State Department of Education, (January, 1972).

25 *Hobson v. Hansen*, 269 F. Supp. 401 (D.C. 1967), affirmed *sub nom Smuck v. Hobson*, 408 F. 2d 175 (D.C. Cir. 1969).

26 *Serrano v. Priest*, 5 Cal. 3rd 584.

27 *Van Dusartz v. Hatfield*, 334 F. Supp. 870 (Minn. 1971).

28 James S. Coleman, Ernest Campbell, Carol Hobson, James McPartland, Alexander Mood, Frederick Weinfeld, and Robert York, *Equality of Educational Opportunity* (U.S. Office of Education, 1966).

29 U.S. Office of Education, *Do Teachers Make a Difference?* (1970). Frederick Mosteller and Daniel Moynihan (eds.), *On Equality of Educational Opportunity* (New York: Random House, 1972). Harvey Averech *et al.*, *How Effective Is Schooling?* Report to the President's Commission on School Finance, RAND Corporation (December, 1971).

30 Coleman *et al.*, p. 325.

31 Eric Hanushek and John Kain, "On the Value of Equality of Educational Opportunity as a Guide to Public Policy," in Mosteller and Moynihan, pp. 116-145.

32 Donald Winkler, "Educational Achievement and School Peer Group Composition," (Working Paper No. 28, Department of Economics, University of California at Berkeley, August, 1972).

33 Randall Weiss, "The Effect of Education Upon the Earnings of Whites and Blacks," *Review of Economics and Statistics* (May, 1970).

34 Ivar Berg, *Education and Jobs – The Great Training Robbery* (New York: Columbia University Press, 1970).

35 Robert Dreeben, *On What Is Learned in School* (Reading, Mass.: Addison-Wesley, 1968).

36 Herbert Gintis, "Education, Technology, and the Characteristics of Worker Productivity," *American Economic Review*, 61: 266-279 (May, 1971).

37 See above, p. 54.

38 For a documented study of this, see Volume II, Part A.

39 Steven J. Weiss, *Existing Disparities in Public School Finance and Proposals for Reform*, Research Report No. 46 to the Federal Reserve Bank of Boston (February, 1970), p. 41.

40 *Ibid.*, p. 17.

41 Advisory Commission on Intergovernmental Relations, *Who Should Pay for Public Schools?* (Washington, D.C., 1971).

42 *Report of the New York State Commission on the Quality, Cost, and Financing of Elementary and Secondary Education* (1972).

PART C

Assessment Reform

Introduction: The General Property Tax

The general property tax is imposed by law at a uniform rate within each town in the State of Connecticut upon all property except that which is specifically exempt by statute. In Connecticut, as in most states, the general property tax provides a larger amount and a larger proportion of the total State and local revenues than any other single tax. Approximately 50% of all taxes collected in Connecticut during the year 1971 was derived from the property tax, while over 70% of local government revenue came from the property tax.

Dependability of the general property tax lies in the stability it provides local governments for revenues. Balancing of municipal budgets would be immensely more difficult were the property tax not available to bridge the gap between revenues from other sources and the total revenues required. The property tax has provided a solid, consistent base for revenue over relatively long periods of time; and adjustments in the tax rates have accommodated changes in expenditures.

The Commission believes that the general property tax should not assume a position of lesser importance in local taxation. Since the property tax is and will continue to be the single most important revenue source for Connecticut's State and local governments, the Commission has devoted considerable attention to remedying the evident deficiencies in the system of assessment of property for tax purposes.

In the coming years, formulas for equalization of school taxes among towns, State grants based on town grand lists, and sound local fiscal policy will require a uniform and equalized assessment program. The ideal assessment system will insure (1) that all taxable property is located and subject to tax, (2) that different classes of property have different assessments and hence bear tax burdens that are uniform, or if provided by law are different only to the extent the law provides, (3) that individual properties of a given type are treated uniformly.

The grand list should be revised continuously not only by new additions but with market value studies (sales ratios) so that the current values are recorded for all property owners. It is particularly important to know market values in today's highly mobile world where new highways and shopping centers can have dramatic upward effects on property values and also where urban blight, racial unrest, and general decay can cause rapid downward movement. **With modern computer techniques the grand list can be continually updated and published once a year.** At 100% valuation, the assessment recorded is in fact the market value — namely the price which a seller should receive in an arm's length transaction.

The effect of annual revaluation is to show clearly the actual incremental gain or loss in grand list values. This information can be projected in planning future programs. With respect to property owners, it **assures an equal assessment for the same property values.** It puts an end to the constant complaint that new construction is assessed more heavily than older homes, for example. It allows land values to be accurately reflected in the tax grand lists.

The fact that a new assessment is created every year does not mean taxes will go up. The town agency responsible for the budget controls the tax level. For example, with no change in budget the mill rate in most towns will decrease annually, reflecting a constantly lower percentage of property tax compared to assessment or market value. The towns can thus lower their mill rates each year or if budgets require, maintain the mill rate while getting a higher and higher yield from the property tax because of escalation of market values.

The assessing system which exists today is the biggest cause of the charge of inequity so frequently attributed to the property tax. At present Connecticut has widely varying assessments due to careless procedures, extended time for the physical revaluations, and the valuation complexities of many properties. **The State badly needs uniform procedures, improved data processing, and more professional assessors. The Commission estimates that the towns are losing approximately 10% of their annual revenues because of faulty valuations and failure to record certain categories of property.** Unfortunately, Connecticut lags behind many other states in adopting modern assessment reforms.

The following pages detail the Commission's program for assessment reform. A summary of the findings and recommendations is given below.

Commission Findings and Recommendations

Commission Findings

This Commission has found many deficiencies in the present assessing practices as detailed in this Report. A list of major findings is as follows:

1. *The assessment percentage of value is not equal between classes of property.*
2. *The assessed value of undeveloped land is grossly below the percentage of value for other real estate.*
3. *Many assessors have not been properly trained to carry out the duties of their office.*
4. *Some revaluation companies are not using qualified personnel or ideal procedures, resulting in poor revaluations.*
5. *There is substantial loss in tax revenues from owners of unregistered vehicles avoiding a tax.*
6. *Much special equipment is underassessed.*
7. *Public utilities require special attention for assessment values.*
8. *There is a need for statewide sales studies to determine proper assessments.*
9. *Local assessors need State assistance in the valuation of special properties.*
10. *There is a need for revising some existing laws and enforcing other laws to insure equalized assessment values.*
11. *Charges for building permits are insufficient and many contractors fail to disclose the true value of their construction.*

Commission Recommendations

I. Enact a State Uniform Assessment Law

- *A. Organization: Create a State Board of Assessment Supervision with responsibility for all property assessment functions throughout the State, including supervision of all local property assessments.*
- *B. Board Responsibilities: Establish and administer policies designed to insure accurate and equitable assessments of property throughout the State, including specifically (but not limited to) the following:*
  1. *Establish a uniform assessment date and a uniform fiscal year*
  2. *Establish a uniform percent assessment*
  3. *Establish a system of certification of local assessors*
  4. *Review the assessments of all major commercial and industrial properties*
  5. *Establish a system of supervision of revaluation companies*
  6. *Establish uniform operating procedures for initial assessment and revaluation of property*
  7. *Require annual computer-assisted reassessments*
  8. *Establish a system of assessment sales-ratio studies*
  9. *Prepare an assessment of tax-exempt property*
  10. *Require all towns to assess by personal inspection one-fifth of the property each year and the entire town in a five-year period.*

II. Public Act 490 (Preservation of Farms, Forests, and Open Space)

- *A. Tighten definition of forest lands*
- *B. Tighten definition of open space*

III. Public Act 152

- *A. Change the minimum conveyance tax to 5%, thereby providing some recapture of tax benefits derived*
- *B. Tighten the definition of holding period for purposes of computing the conveyance tax*

IV. Reassess all undeveloped land not under PA 490 (Preservation of Farms, Forests, and Open Space) to reflect present market values in accordance with existing statutes.

V. Establish a uniform minimum building permit fee of $5 per thousand dollars of construction, and develop a uniform minimum schedule of costs and fees for local inspectors.

VI. Require towns to convert to 100% valuation with an annual computer revaluation of the grand list and to adopt a uniform assessment date and fiscal year within 2 years.

Assessment Reform: Cost/Benefit Summary

The estimated annual cost of administration of this program is $5 million. This would include the entire staff, office housing costs, and computer costs. This can be entirely borne by the State or a portion can be prorated to the towns. For instance, computer time allocated to a particular town can be paid by that town, and State assistance to the local assessor in the valuation of special properties can be levied to the town.

In the Commission's opinion, there will be little increased cost to the towns for having an annual reassessment program because the money they are now spending once every 10 years in a lump sum will be spread out evenly over the 5-year period.

Assessed value of dwelling houses only, on the grand list of 1970 in the entire State is $7,556,696,866.[1] There are 694,597 dwelling units which indicates an average assessment per unit of $10,879. After allowing for a 10% tolerance between actual sales and assessed valuation, a study of all the sales in 6 of the towns surrounding Hartford has revealed that 18% of the total number of properties sold are assessed under 10% of the average assessment percentage in the year 1971, and only 3% were assessed above 10% of the average assessment. This same study reveals that as the sale price increases over the $40,000 price range, the assessment value gets progressively lower than the average percentage for the town as a whole.

From this data it is estimated that with uniform assessments there will be an increase of 10% in the value of dwelling units in the State or a total increased assessed value of $750 million. The remaining $250 million will be derived from underassessment of all other properties. While specific data has not been developed in these other areas, the Commission believes that substantial underassessment is prevalent in some classes of property.

Overassessment of residential property was small in dollar amount according to the sales research, but a spot check across the State of obsolete industrial plants which have sold during the past 10 years reveals that some reductions in assessed values are warranted and would be granted in a uniform assessment program. The overassessments resulting in grand list reductions are netted in the figures presented in Table C-1.

Connecticut had 2,137,663 acres of undeveloped land having an assessed value of $1,051,164,959 in the year 1970.[2] As a matter of policy, assessors historically have disregarded the law in the valuation of undeveloped land. A detailed discussion of land value will be found elsewhere in this report,[3] but it must be considered in this chapter because it involves a substantial estimate of revenues being lost by underassessment.

TABLE C-1: Estimated New Revenues To Towns After Assessment Reform

Property Class	*Est. Increased Asses.*	*Est. Revenue*
Undeveloped land	$1,000,000,000	$50,000,000
Motor vehicles excluding automobiles	50,000,000	2,500,000
Real Estate underassessed	1,000,000,000	50,000,000
Conveyance tax P.A. 152		1,000,000
Assessment on tax exempt property, occupied by non-exempt parties	10,000,000	500,000
Building permit fees		2,500,000
TOTAL ESTIMATED INCOME		$106,500,000
Real estate overassessed	100,000,000	—5,000,000
Net Estimated Income		$101,500,000

The present law pertaining to land values is no different than for any other class of property except for lands which qualify under Public Act 490. One town studied in detail revealed that assessments on undeveloped lots were one-third lower than on improved properties and raw acreage assessments were only one-fifth those of improved properties.

The Commission concluded that about half the undeveloped land in the State has been or can be qualified under Public Act 490. The remaining half, when properly assessed under present law, will have an assessed value in excess of $1 billion over the present assessed value.

Some vehicle owners avoid taxation by moving them from town to town, utilizing the different assessment dates to avoid declarations to local governments. In addition, unregistered vehicles and underassessed special equipment result in further loss of revenue. This loss in revenue is impossible to estimate with any degree of accuracy, but the Commission feels that more than $50 million of property in this category is presently not being carried on the town grand lists.

Public Act 152, conveyance tax on properties assessed under Public Act 490, is too recent to produce income figures for this Report. Estimated income in this category is based upon the new formula being recommended by this Commission.

For many years there has been a conflict between assessors and owners of tax-exempt properties over portions of tax-exempt properties occupied and used by non-exempt parties. In the opinion of the Commission, if the law is clarified to permit assessments on such portion of properties now enjoying exempt status, but occupied by non-exempt parties, or where a competitive profit-making business is being conducted by the tax-exempt owner, there would be substantial revenue derived.

Table C-1 shows estimated gains and losses from the sources stated above. Revenues are based upon the present State average mill rate of 50 and levels of assessment now prevailing.

Equity of Assessments In Connecticut

An equitable assessment system is one in which all property that is subject to taxation is in fact on the assessment rolls, and each property on the assessment rolls in a single taxing jurisdiction—a town — has an assessment that is approximately the same ratio of true, or market value, unless otherwise provided by law. Perfect uniformity in the ratio of assessed to market value is unattainable, since the market value of each and every property cannot be known precisely except at the moment when a property is transferred by sale. However, wide variations in assessment ratios can and should be avoided between different types of property as well as within a given class of property.

Just how uniform are assessments in Connecticut? It is not easy to answer this question with confidence, for unlike the great majority of American states, Connecticut's State government does not conduct a systematic program of studies of assessment performance. The conclusions below are based on limited statistical evidence and the general beliefs of experts in the field.

Uniformity Among Types of Real Property

Every five years, the U.S. Census Bureau conducts a Census of Governments. One element of that census is a comparison of sales prices of real properties with their assessed value. The last completed Census of Governments, that for 1967, made this comparison for a six-months period in 1966. Table C-2 presents the results, by type of real property, for the 71 Connecticut towns for which data are available.

The first column in Table C-2 presents the declared assessment ratios. It is evident that in most cases, the declared ratio was well above the actual average assessment ratio in 1966. This is not, by itself, a matter for concern; the real issue is whether there are wide variations within a town in the assessment ratios for different types of property. Table C-2 shows that such wide variations are indeed common.

The extent of variation is summarized in Table C-3, in which the assessment ratios for other classes of property are compared with those for single-family houses. Since a very large proportion of all real property in most Connecticut towns is composed of single-family houses, the ratios for single-family houses and for all classes combined are quite similar. As Table C-3 shows, the ratios for single-family and multi-family houses are similar in half the 44 towns for which data exist, but in 15 towns the multi-family ratio is more than 20% higher or lower than that for single-family houses. However, the disparities are much more widespread, and more serious, for the remaining types of property. Substantial relative underassessment of vacant lots is the rule rather than the exception: the ratios for vacant lots are similar to those for single-family houses in only 12 of the 63 cases and are more than 20%

lower in 41 towns, 17 of them having ratios for vacant lots that are less than half those for single-family houses. Similarly, farms and acreage have relatively low ratios, with 28 of the 36 cases falling 20% or more below the single-family ratios for those towns, 15 of them having ratios that are less than half those for single-family houses. Also, in most cases commercial and industrial property is favored, contrary to the practice in most urban areas in other states. How-

TABLE C-2: Average Ratio of Assessed Value to Sales Price by Property Use Classification, Selected Connecticut Towns 1966 (In Percentages)

		ACTUAL RATIOS					
Towns	Declared Ratio	All Classes	Single Family	Multi-Family	Vacant Lots	Farms & Acreage	Commercial	Industrial
Andover	60	58.9	59.0	0	109	23.7	0	0
Ansonia	65	91.8	91.6	98.1	79.1	0	0	0
Bethel	70	52.5	53.2	70.3	24.5	0	0	0
Bristol	65	51.8	56.2	51.1	40.1	0	60.2	34.5
Clinton	65	51.2	55.1	72.1	20.7	0	0	0
Colebrook	65	48.7	54.0	0	20.3	18.0	30.0	0
Columbia	50	54.0	54.9	0	16.8	0	0	0
Coventry	65	54.4	58.5	54.2	29.9	47.3	53.6	0
Danbury	65	39.9	48.1	38.1	24.3	5.7	29.3	0
Darien	70	46.6	47.7	0	31.5	32.2	0	0
Deep River	65	67.4	69.1	0	36.3	0	0	0
Derby City	65	50.2	50.1	50.3	0	0	0	0
Eastford	67	51.2	51.2	0	0	0	0	0
East Haddam	60	49.9	54.6	35.0	57.5	59.2	0	0
East Hampton	65	40.4	63.3	0	25.0	29.8	15.7	0
East Hartford	67	46.7	55.0	0	40.5	0	32.6	0
East Haven	65	49.4	50.8	42.5	26.8	0	0	0
Easton	60	46.7	50.2	0	19.0	0	0	0
Enfield	60	63.2	53.2	0	0	0	0	0
Essex	60	37.8	46.9	0	17.8	0	0	0
Greenwich	85	77.4	78.1	75.5	75.3	43.9	0	0
Groton	70	60.3	57.6	56.8	58.7	0	85.3	0
Guilford	80	61.9	65.0	85.1	53.3	56.9	0	0
Fairfield	70	65.1	65.6	61.0	66.5	0	0	0
Haddam	50	52.8	52.8	0	0	0	0	0
Hamden	60	43.3	43.0	45.9	28.1	0	0	0
Hartford	65	54.6	56.8	52.4	39.2	0	58.5	42.7
Killingly	60	51.9	55.1	45.4	50.4	33.7	0	0
Lebanon	70	60.1	65.4	65.8	43.1	50.7	0	0
Litchfield	60	41.1	32.8	45.3	56.8	0	0	0
Manchester	65	39.5	55.5	42.1	57.8	9.9	27.2	52.6
Mansfield	60	41.4	52.5	50.1	29.0	16.1	24.8	0
Madison	60	37.3	41.3	0	25.7	0	0	0
Middlefield	65	49.0	53.4	0	46.5	26.4	0	0
Middletown	65	53.4	55.3	0	44.7	0	49.7	0
Milford	70	56.4	57.4	63.2	24.8	0	0	0
New Britain	60	42.9	46.2	39.7	18.9	0	0	0
New Canaan	60	89.3	91.3	0	0	0	46.0	0

TABLE C-2: Average Ratio of Assessed Value to Sales Price by Property Use Classification, Selected Connecticut Towns 1966 (Continued)

Towns	Declared Ratio	ACTUAL RATIOS: All Classes	Single Family	Multi-Family	Vacant Lots	Farms & Acreage	Commercial	Industrial
New Haven	60	46.7	51.3	51.3	53.7	0	38.6	0
New London	65	41.3	38.5	51.3	41.1	0	23.0	0
New Milford	65	56.8	58.4	0	0	9.8	31.0	104.2
Newington	65	50.8	53.5	29.8	32.1	56.3	0	0
North Stonington	70	52.4	58.7	0	33.0	15.5	0	0
Norwalk	65	45.6	49.3	37.4	24.8	47.9	60.5	26.5
Norwich	65	54.6	59.8	63.3	23.8	0	50.0	41.0
Old Saybrook	65	54.7	55.9	0	40.5	0	0	0
Orange	60	42.7	49.2	0	29.9	82.5	0	24.7
Plainfield	60	48.7	46.8	47.5	42.9	25.5	60.0	0
Plainville	65	44.0	48.7	59.0	24.4	24.0	0	14.3
Putnam	65	76.3	71.6	85.3	0	0	0	0
Reading	50	36.9	41.2	0	16.9	20.0	0	0
Ridgefield	50	44.8	46.3	0	34.5	0	0	0
Rocky Hill	70	56.4	58.8	0	33.8	42.9	57.6	0
Salisbury	60	33.6	0	30.7	40.0	37.9	0	0
Sherman	33	24.7	25.7	0	10.0	13.1	45.6	0
Somers	50	42.8	46.4	50.3	21.2	0	38.6	0
Southington	65	45.1	46.8	0	41.3	14.5	0	0
Simsbury	65	56.1	58.5	49.3	22.3	17.7	0	39.9
Stamford	65	53.1	59.5	51.3	31.5	0	39.4	30.1
Stonington	70	51.7	49.3	62.4	87.5	48.5	0	0
Tolland	65	53.3	56.9	0	24.4	45.3	0	0
Torrington	60	48.2	53.1	0	13.7	0	0	0
Trumbull	70	50.8	54.4	55.3	38.5	0	0	0
Wallingford	60	37.1	37.9	39.7	39.5	29.0	0	26.0
Warren	50	46.1	46.1	0	0	0	0	0
Washington	65	42.9	61.2	0	0	18.0	0	0
Waterbury	100	79.8	91.5	92.3	93.7	65.3	0	65.3
Watertown	65	51.2	57.9	54.8	35.9	41.3	0	27.6
West Hartford	55	43.9	44.8	43.8	33.5	0	0	34.8
West Haven	80	47.4	49.4	48.6	23.8	10.2	17.8	0
Wilton	60	45.2	44.1	49.3	28.9	60.6	0	0
Winchester	70	62.6	57.1	80.1	0	0	0	0
Windham	60	40.7	42.8	32.9	53.6	30.4	35.6	0
Woodbury	66	45.6	46.0	63.0	29.7	11.0	56.2	0

Note: All numbers are expressed in terms of percent. They represent the assessed value as divided by an indicator of present market value.

Source: These data are from unpublished field tabulations used in the preparation of Vol. II of the 1967 Census of Governments. For that Census, field investigators examined bona fide sales of properties sold during a six-months period in 1966 and compared the sales prices with the assessed values; the ratios shown here are the results of those comparisons. It should be noted that the Census procedures excluded from consideration high-value properties, of which sales are infrequent. Thus, the ratios for commercial and industrial properties refer to relatively small business properties only; the ratios for multi-family exclude new high-rise apartment buildings and the ratios for farms and acreage exclude some transactions involving large, expensive tracts.

TABLE C3: Assessment-Sales Ratio Variations by Real Property Class: Distribution of Connecticut Towns, 1966

	TYPE OF PROPERTY				
	Multi-Family Housing	Vacant Lots	Acreage plus Farms	Commercial	Industrial
Number of towns for which assessment-sales ratio data available	44	63	36	25	14
Average assessment ratio for class shown in column heading compared to average ratio for single-family houses in that town:					
Higher by 20.0% +	9	3	2	4	1
Higher by 10.0 - 19.9%	2	–	–	1	–
Within ± 10%	22	12	1	4	1
Lower by 10.0 - 19.9%	5	4	2	3	–
Lower by 20.0 - 49.9%	6	27	13	9	10
Less than half ratio for single-family houses	–	17	15	4	2

Source: Calculated from Table C-2.

ever, the degree of relative underassessment is less extreme than that for undeveloped land.

Uniformity within Classes

The only hard evidence concerning uniformity within classes is that provided by the Census of Governments for single-family houses. The Census Bureau calculates a measure called the "coefficient of dispersion" of assessed value-salesprice ratios for single-family houses sold during the test period. That measure is the average deviation from the median assessment ratio, divided by the median, expressed in percent. In other words, as an approximation, if the coefficient of dispersion is 20% it means that most owners of single-family houses in a town can expect to have an assessment ratio that is within 20%, plus or minus, of the median ratio for the town.

A coefficient of dispersion that is below 20% is generally considered evidence of acceptable assessment quality when using a lower percentage. (It should be noted, however, that the acceptable range of error with regard to the administration of sales and income taxes is much lower.) Measured by this standard, the quality of assessment of single-family houses is reasonably high in Connecticut towns, as perhaps should be expected since, as Section B of this Report (on School Finance Reform) shows, there is a high and increasing degree of economic homogeneity within Connecticut towns. In any event, in 1966, 50 of the 59 towns for which the Census Bureau made calculations had coefficients of dispersion of less than 20%, 39 of them 15%; nearly all of the larger towns were in the latter category.

The Census also indicates that the quality of assessment of single-family houses is relatively good in another respect: the lack of any systematic discrimination in assessment ratios by value of house. Since sales of high-priced houses are much less frequent than those of lower-priced houses, assessors have less evidence with which to work in the former case and might be expected to err on the side of caution, to minimize possible litigation, and underassess expensive houses relatively. This does not appear to be the case in 52 of the 59 towns studied by the 1967 Census: in only 7 towns was there systematic discrimination in favor of high-priced houses. However, more recent sale ratio studies reveal a greater number of the higher priced homes are now underassessed.

The Census sample does not include sales of newly constructed houses. Some feel that assessors tend to assess new houses at higher than average ratios, but there is no statistical evidence on this score. For other classes of real property, there is also no evidence on within-class variations in assessment ratios, but there are reasons to believe that the variations are considerable. Commercial and industrial realty is heterogeneous in nature and difficult to assess at best. Many buildings are highly specialized in nature and seldom if ever sold in the open market. More generally, assessors must rely on different kinds of evidence for different properties: sales prices for those recently sold, construction costs for those recently built, capitalized net income for properties that are rented by the owners, and estimates of depreciated replacement costs for others.[4] Combining this evidence to produce reasonably uniform assessments for highly varied properties requires training and experience that many local assessors do not possess. Moreover, there is some indication that the revaluation companies on which many towns rely use less than ideal methods.[5] As for undeveloped land, the very low ratios that are prevalent (see Table C-2) suggest that assessors in general decline to recognize the current state of land values as a matter of local policy, which in turn suggests that wide variations in individual assessment ratios are common.

There are other reasons for suspecting a high degree of non-uniformity for real property other than single-family houses: the infrequency of comprehensive revaluations; the absence of procedures for automatically updating assessments between the dates of comprehensive revaluations; and the frequent lack of machinery for taking into account new construction and major renovations during those long interim periods. Since different properties do not increase evenly in value during periods of general price inflation (this is less true for single-family houses), these deficiencies in assessment practices must result in substantial non-uniformity.

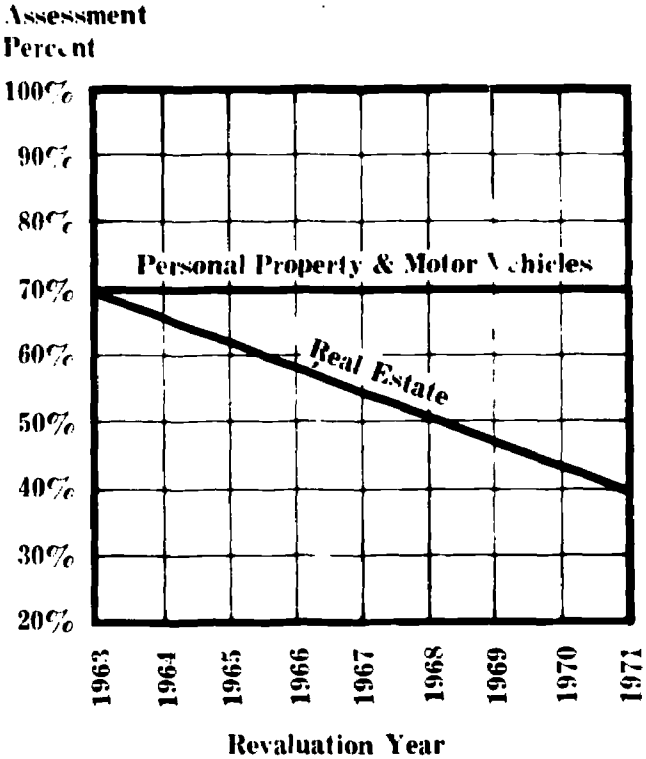
Personal Property

There are also reasons for suspecting much non-uniformity in the assessment of personal property. For one thing, since tangible personal property is valued annually, while real property is only infrequently valued, to the extent that assessors do a good job on personal property the result will be higher assessment ratios for personal property as a class than for real property as a class, during periods of rising prices. See Chart C-1.

However, it cannot be stated that assessors generally do a good job in valuing personal property. Because personal property covers such a wide range of objects and vehicles, it is considered the most difficult type of property to evaluate. To a considerable extent, personal property is owner-assessed, either because many assessors do not have the training required to value so varied a range of assests or because they do not have the resources to evaluate book-value evidence of all companies every year. For many types of personal property, book value is the only evidence, because there is no organized second-hand market for equipment of that type. There is such an organized market for automobiles and general-purpose trucks; most towns do use the manual of

CHART C-1:

Disparity of Values Between Real Estate, Motor Vehicles, and Personal Property



valuations for automobiles, prepared annually by the State Tax Department, but use of the manual is voluntary, not compulsory.

Nonetheless, automobiles do tend to be assessed with some uniformity. This is not the case for some other types of motor vehicles, including large trucks, construction equipment, and some other specialized vehicles. The problem is especially severe with regard to vehicles that need not be registered with the State Motor Vehicle Department, but the lack of registration is not the only impediment to uniform assessment. Any highly mobile personal property is difficult for local assessors to actually discover, and this difficulty is compounded by the fact that 18 towns have assessment dates other than October 1;[2] it takes no great ingenuity or enterprise for an owner to manage to have his mobile personal property never present in a town on its assessment date.

The Special Property of Public Utilities

Of all types of non-residential property, the real and personal property of public utilities is by far the most difficult to assess. It is so highly specialized that no market for it can be said to exist; in view of the utility's legal obligation to provide prescribed services, the company cannot readily sell or abandon individual pieces of property, which has or should have a major bearing on the valuation of that property; and the value of each parcel depends heavily on the rest of the company's investment. Indeed, it is difficult to make any valid statement about the value of a telephone exchange or an electric sub-station standing alone. Because of this, in the great majority of the 46 states in which utility property is subject to general property taxation, a state government agency is responsible for assessing utility property, in whole or in part. In 24 states, there is no local assessment at all; in 12 there is a division of responsibility between state and local assessors. There are only 10 states — Connecticut, the 5 other New England states, and 4 others — in which all public utility assessment is done locally.

In most states, the system of assessment is what is known as the unit rule, under which the state agency values the entire utility company as a system, and then uses various measures to allocate fractions of the total system value to the local units in which the company operates; there is no explicit valuation of individual pieces of utility property. Typically, unit-rule valuations are heavily influenced by capitalized net operating income of the company and/or the market value of the outstanding stocks and bonds of the company, and less influenced by estimates of depreciated replacement costs. It is widely agreed that this typical approach provides a far better approximation of market value for utility property in the aggregate than does the Connecticut system; moreover, the more common approach provides for uniform treatment of a utility's property, regardless of its location in a state, and it can provide more uniformity as compared to non-utility property. In the Connecticut system, which requires many unskilled assessors to value bits and pieces of property whose true value is extraordinarily hard to ascertain in any case, substantial under- or over-assessment of utility property, compared to other property in a given town, is likely to be the rule rather than the exception.

Valuation Procedures

In order to provide the framework for much of the following discussion, it may be helpful to explain here the different types of valuation currently in effect in Connecticut.

Three basic methods of valuation have been used and tested in Connecticut courts. These are called the market data approach, cost approach, and income approach. When appraising property, one or all of these can be used, depending upon the type of property being appraised. Sometimes it is desirable to use all three approaches but to give greater weight to one. In the final analysis, a fair market value can be defined as the price an informed owner is willing to accept from a prudent and informed buyer without any outside pressures.

The Market Data Approach

The market data approach is applicable when there are ample sales of one type of property; in this category would come unimproved land, single family dwellings, multi-family dwellings, etc.

This kind of appraisal, reflecting the prices paid in the marketplace, is the best measure of value. While no two properties are exactly alike, there are usually enough similarities so that they can be compared. A knowledgeable assessor can chart the variables between subject being appraised and those similar properties which have sold recently. Adjustments which may be necessary include heat, plumbing, air conditioning, size, condition, age, recreation rooms, fireplaces, etc.

The Cost Approach

The cost approach applies in two major categories, first to relatively new buildings, and secondly to structures which have no other guide to value, for example a single-purpose, owner-occupied structure which is not normally sold in the marketplace. Estimating the value by cost approach involves two steps: determining the replacement cost and then applying the loss in value caused by physical, functional, and or economic depreciation.

There are available at present excellent cost manuals to estimate the replacement cost of structures. The replacement cost of a property usually establishes the upper limit of value under the principle of substitution. The greatest difficulty in appraising by this approach is the determination of depreciation.

Despite the defects in [illegible], a number of necessity must use this approach [illegible] tasks. However, [illegible] revaluation companies use [illegible] value many buildings which [illegible] be appraised by this technique. [illegible] used because it is the most [illegible] of the three accepted methods, it is less time consuming, and costs less to administrate.

The Income Approach

The income approach is the application of market income data to value a particular type of property. Properties which would sell in the open market on the basis of the ability of the property to produce a net income would be valued by an income technique.

This approach is the easiest method of valuing property because all of the input data is factual. The only input which requires expertise is the development of the capitalization rate. A difference of less than 1% in capitalization rate could make a substantial value difference.

Ingredients of an income approach to value include gross income, actual and or economic income and actual or performance operating expenses, and a capitalization rate. The capitalization rate involves a consideration of financing, return of equity to owner, profit, depreciation, risk, nonliquidity of the asset, and management.

State Assistance To Local Assessors[7]

Any reform in tax administration within the State of Connecticut must come about through closer cooperation between the State and local levels of government. Efforts to improve the quality of property tax assessment must concentrate upon knitting these two levels of government into a well-coordinated, smoothly functioning operation. To assist in developing closer relationships, there should be established at the State level proper administrative machinery and standardized procedures.

State Board of Assessment Supervision

Presently, the burden of valuing real estate and personal property in the State of Connecticut lies entirely with the local assessor or board of assessors. General supervision is given by the State Tax Department, but there is no authority for enforcement in the administrative process. **The Commission believes that a division of the State Tax Department should be established with full legal authority to direct and supervise the local assessment function.** This division would be called the State Board of Assessment Supervision. The division would be composed of a Director of Local Assessments, responsible for the entire State program, and six Assessment Supervisors. Each would be a qualified valuation expert hired under civil service rules. The supervisors would each be responsible for specific sections of the State divided as follows: Hartford County, New Haven County, Fairfield County, Litchfield County, Windham and Tolland, and New London and Middlesex Counties. These supervisors would be responsible for all of the programs required by statewide uniform assessments.

Argument for Regional Districts

Based upon the experience in other states, better assessments seem to result when the number of assessment districts is reduced.

The May 1970 edition of *Nation's Cities* is devoted entirely to the subject "Better Assessment for Better Cities." It points out the trend in many states toward consolidated assessment districts, indicating that in 31 states, county-size assessment districts are standard.[8] The article summarized the advantages of consolidation as follows:

1. Making the number of assessment districts small enough permits effective state supervision.
2. It eliminates overlapping assessment districts and the wasteful duplication of work they entail.
3. Such reduction makes even the smallest consolidated assessment districts large enough to afford an adequately paid full-time qualified assessor and trained staff.

These recommendations of experts in the field warrant serious consideration and may be an ultimate goal to strive for in Connecticut. **The Commission does not recommend at the present time any such drastic changes in assessing districts. However, it is recommended that towns which are too small to carry the financial burden of a full-time assessor should combine with other small towns to hire a qualified assessor to cover the work load in the combined towns, distributing the cost over each of the towns in which he works.**

Local Board of Tax Review

The present system of property tax appeals is through a local board of tax review. Connecticut's boards of tax review are official municipal agencies created to serve as an assessment review board. They are the first level of appeal from actions of the assessors, and their function is at an intermediary level between the assessors and the courts. Those serving on these boards are elected, and the vast majority have had no experience in the appraisal or assessment fields. **The Commission recommends that at least two members of any board be qualified in a field allied to property valuations, such as real estate appraisers.**

State Board of Appeal

There is a need for a body of professional valuation experts to review assessments before a court appeal is taken. **The Commission is proposing a State Board of Appeal composed of a chairman, who is the State regional supervisor and three professional members selected from outside the region in which the appeal property is located.** These three professional members would be appointed by the Director of Local Assessments from a list of qualified valuation professionals. A taxpayer may make an appeal to the State Board of Appeal at no cost to himself, and it will not be necessary for either the taxpayer or the assessor to be represented by counsel. Assessors would have the right to appeal the reduction of a valuation by the Local Board of Tax Review under this program.

Director of Local Assessment

The Director of Local Assessment would be required to promulgate rules and regulations to:

1. Mandate uniform guidelines for assessing administration, including granting of exemptions and special assessments.
2. Prepare, issue and periodically revise guides for local assessors in the form of cost manuals, handbooks of rules and regulations, appraisal manuals, special manuals and studies, news and reference bulletins, and digests of property tax laws suitably annotated.[9]
3. Require each tax jurisdiction to maintain tax maps in accordance with standards specified by the State. Here again, uniform standards would be established and followed throughout the State. All parcels would be identified through a standardized parcel numbering system which would be related to the assessors' map books.
4. In cooperation with local assessment jurisdictions, devise, prescribe, and require the use of all forms deemed necessary for effective administration of the property tax. It is intended that these forms shall be uniform throughout the State.
5. Establish standards for revaluations and revaluation firms. Maintain a list of certified revaluation companies and approve contracts between local jurisdictions and those revaluation companies.

6. Develop, maintain, and enforce a uniform system of statewide preparation of assessment rolls, tax rolls, and tax bills.
7. Establish unit prices for lands valued under Public Act 490 (1963 Session - - "An Act Concerning the Taxation and Preservation of Farm, Forest, and Open Space Land").
8. Provide technical assistance to assessors when requested, for assessing specialized properties.
9. Administer the sales ratio studies and provide towns with assessment percentages from sales ratio studies and appraisals.
10. Establish a system of statewide current valuations through annual computer updating.
11. Value all real and personal property of public utilities.
12. Maintain listing of approved professional valuation experts for Board of Appeal.

Powers of the State Board of Assessment Supervision

The State Board of Assessment Supervision shall have compulsory power over the local assessing function, including the right to mandate procedures, conduct an audit for compliance at local levels, and act for the local assessors on special types of property.

Uniform Assessment Dates – Uniform Fiscal Year

Uniform Assessment Dates

Lack of uniformity of assessment dates and fiscal years creates special problems of administration. The need for statewide uniformity becomes particularly urgent when payments are made to or by towns based on their assessed valuation as of a specific time.

Different assessment dates also create a major problem of where personal property and more particularly motor vehicles are to be taxed. Some property avoids being taxed because of different assessment dates by being moved from place to place, thereby taking advantage of the different dates for recording property.

By special act, the following towns have assessment dates other than October 1: Glastonbury and South Windsor have January 1, Waterbury May 1, Hartford and New Canaan July 1, Ansonia, East Lyme, Groton, New Britain, New London, Norwalk, Plainfield, Stamford, Stonington, Waterford, West Haven, and Wethersfield September 1, and Killingworth December 31. **The Commission recommends that these towns convert to October 1.**

Uniform Fiscal Year

Provision for uniform fiscal years for all towns throughout the State would facilitate administration of the property tax. In developing a program of uniformity throughout the State it is necessary for all towns to adopt the same fiscal year. **The Commission recommends that the towns be on the same fiscal calendar as the State, that is, that all fiscal years should begin on July 1.**

Certification of Assessors

Connecticut assessors are presently either elected by the people or appointed by the legislative body. Elected assessors serve for a specified period of time and need not meet any minimum requirements of training to serve on a board. Appointed assessors, on the other hand, usually have had some training, but experience and training are not mandatory. The lack of technically trained personnel has resulted in many gross inequities in property values, and in some instances, complete omission of taxable property.

The Connecticut Association of Assessing Officers and the International Association of Assessing Officers have developed their own programs of certification known as "Certified Connecticut Assessor" or "Certified Assessment Evaluator." These designations are attained after considerable training and years of experience, plus a passing

grade on written examinations. As of this writing, there are 14 assessors in Connecticut holding both the CCA and CAE designations and 5 assessors who have received the CCA designation only. The combined distribution of these assessors covers 17 municipalities or about 10% of the State's 169 towns.

Connecticut has the oldest continuous school for assessors in the United States, completing its 27th year in 1972. This school is run once a year for 4 days and is sponsored jointly by the State Tax Department, Institute of Public Service, University of Connecticut, Connecticut Association of Assessing Officers, and the International Association of Assessing Officers. It takes a minimum of 4 years to complete all the courses provided in this school—the fourth year being an advanced course which changes yearly in order to expose the more experienced assessors to new areas in which to advance their knowledge. Currently assessors attend the school on a voluntary basis, and State law provides that the towns must pay the tuition.

The Commission recommends that all assessors and valuation personnel be required to attend this school for as many years as it is necessary to obtain a passing grade in each phase of the school's program, or its equivalent. This training or its equivalent would constitute the minimum requirements for being certified to assume assessment responsibilities. Certification would be made by the State Supervisory Board after an oral and/or written examination at the State level. All towns would be required to have their assessor meet the certification requirements within 5 years from the date of enactment of this legislation. The State Board would also establish junior grades for assessment personnel; these employees would be required to achieve an intermediate level of certification.

State Supervision of Revaluation Companies

At the present time, most of the towns in the State employ appraisal companies to conduct their general revaluations. These companies can be small or large, competent or incompetent, local or out of State. There is no statewide requirement as to the qualifications of the personnel employed to do valuation work which, in many instances, becomes quite technical. Hence, the towns and cities must take their chances when accepting the bid of a revaluation company. Usually, the lowest bid is accepted for the purpose of economy; unfortunately, sometimes the results are less than desirable.

Some reassessments in Connecticut have been made by people who are totally untrained to do the job for which they were hired. These people include high school students, college students, and teachers working on their summer vacations. Often these individuals have no training in measuring and properly describing a building, yet they serve as field appraisers. Revaluation company employees often place final values on residential properties without a thorough study of the most recent market sales. Income producing buildings are frequently valued by a cost approach[10] because it is less time consuming. Where the income approach is used, there is little effort to ascertain actual income and expense data which would lead to a realistic estimate of market value. All these conditions have resulted in poor quality appraising and inequities in assessed value.

It is recommended that all revaluation companies be approved by the State Board of Assessment Supervision with respect to their ability to properly complete the job for which they wish to bid. Every employee of a revaluation company should be required to comply with minimum training requirements for the job in which he or she has been hired.

This program would allow towns and cities to go to the lowest bidder with reasonable assurance the revaluation is being done by competent personnel.

It is also recommended that the State provide assistance in the preparation and approval of all contracts between revaluation companies and towns.

Revaluations

Present law requires every town to conduct a general revaluation of all taxable property within a 10 year period. In the past, this has permitted some towns to go 19 years without a general revaluation by using the first year of the first 10 year period and the last year of the second 10 year

period. Although this loophole can be accomplished only once, it has been taken advantage of by several municipalities. The intent of the law was that no more than 10 years should pass between each revaluation, and most towns have abided by this intent.

Values in Connecticut have reflected an average increase of between 4 to 8% per year over the past 10 years, and in some cases double these figures during the same period. Assessed value changes are clearly necessary in periods of less than 10 years. The previous legislative Revenue Task Force recommended that no more than 4 years elapsed time be allowed before a general revaluation was undertaken. This Commission tends to concur with these findings; however, a 5-year time period would tend to coincide with proposals suggested elsewhere in this report; and, therefore believes a 5-year general revaluation time period would be more realistic.

This Commission makes a distinction between revaluation and a general revaluation. *Revaluation may be considered a changing of values only, while a general revaluation is characterized by a physical inspection of each property.* At the present time, it does not appear prudent to rely upon value changes only; and, at least for the immediate future, there is still a need for periodic personal inspection of property.

The ideal method of personal inspection would be to split the town into sections with one section being inspected each year so that at the end of a specified time period, every property would have been considered. Unfortunately, under our present system, there is insufficient time for an assessor to do this work and fulfill his regular duties. Towns are now paying vast sums of money for general revaluations once every 10 years. It seems reasonable that this same money could be more efficiently used by one of two methods: first, hire full time personnel for the purpose of yearly revaluation, or, secondly, hire a revaluation firm to do the work under the same method. **The method of general revaluation recommended is as follows: Every town will be divided into 5 sections with one section having a thorough personal inspection each year, and in no case shall the assessor fail to inspect any property less frequently than every 5 years.** The information compiled in this revolving general revaluation can be merged with the computer market data for the whole town in determining annual valuations. As computer capabilities are developed, the need for general revaluations activities may be reduced.

In most towns, personal property is declared by the property owners. This method of self-determination of value results in gross inequities in value of like properties. General revaluation includes the personal inspection of the book of business ownership, and where books are not kept, there are other yardsticks available to ascertain values. **Under the revolving method of general revaluation, it is recommended all personal property accounts be checked not less frequently than every 3 years.**

Computer Assisted Revaluation

The cost of town government has increased dramatically during the period since 1945. This development has placed mounting pressure upon the real property tax and the administrators of the tax. Although costs of administration have risen proportionately with all other living expenses, many of our real property tax administrators have been told to maintain the same staff level which existed 10 to 20 years ago.[11] One immediate result has been that the quality of assessments has fallen. The cost of comprehensive revaluations has risen significantly, and in cases where communities utilize outside companies for mass revaluation, these revaluations have been pushed further into the future than warranted by socio-economic conditions.

Our urban centers have been focal points of civil unrest and social re-adjustment, thus causing major disruptions in preexisting value profiles for the community. Suburban development has changed not only the balance of political power; it has also realigned traditional concepts of land use. Inflation has made speculation in land, and real property in general, an aspiration of everyone who can afford to participate. All of these factors reflect the increased tempo of American life. As our life-style becomes more dynamic, these changes are reflected in price structure of our land resources. Failure of our real property tax assessment procedures to keep pace with these dynamic changes leads to serious inequities in the tax itself.

One approach to overcoming this problem would be to expand our staff requirements and spend a great deal more money on improving the technical quality of those employed in the field. It must be realized that a certain amount of this solution must be adopted regardless of the ultimate principal approach selected. A second major avenue available to governmental bodies is to take maximum advantage of automated systems and computerized techniques.

During the last decade, major advancements have been made toward computerization of the valuation and property tax functions of municipalities. The most notable and widespread advancement has been in the tax billing process. Today, the majority of the towns and cities in the State of Connecticut are using some form of computer assistance in preparing their tax bills. Throughout the country, and in some cities within Connecticut, computers are presently being used to calculate sales ratio analysis as a tool for use in improving assessment administration.

Computerized Assessment Systems

Many property tax jurisdictions have realized the potential use of the computer in developing current assessments and, ultimately, a complete assessment system which would prepare assessments, analyze assessment ratios, and compute tax bills. Effective systems have been developed for municipalities in Pennsylvania, California, Oregon, Washington, and Texas. Progress toward a statewide program in computerized valuation and assessment is being made in Alabama, Arizona, West Virginia, and New York. Some preliminary work toward computerized assessments in Connecticut has been completed by the Hartford assessor's office and by the John C. Lincoln Institute. *Many of these existing computer programs would be available for use in the State of Connecticut, thereby providing for significant savings in the area of system development.*

It should be understood that no computerized system is going to replace those areas in property tax valuation work which call for skilled judgment of the trained professional appraiser. The computer can, however, perform many of the manual calculations which presently consume much of the appraiser's time. There are many aspects of calculating replacement cost, capitalizing income, and summarizing sales data which lend themselves to computerization.

Application of Statistical Techniques

Going beyond the mechanization of these rote calculations, there are some new techniques which could, if properly applied, greatly assist the appraiser in his valuation duties. One of the most recent developments in assessment administration has been the application of statistical techniques, resting primarily on multiple regression analysis. While this form of statistical inference has been widely used in other areas of scientific analysis for some time, it is only lately that assessment administrators have seen the benefits it offers for their type of work.

Multiple regression analysis offers great potential for use in areas where there are large numbers of specific types of properties which would require numerous man-hours to effectively appraise and assess. Through computer analysis, one is able to relate the values of sold parcels to all of the many factors which might have been considered by the buyer when the property was purchased. For example, sale price is said to depend upon house size, lot size, quality of construction, interior features, location, and many other items. Through statistical analysis, over 100 features of a property sale can be analyzed, and the appraiser can be told specifically which items were taken into consideration when the property was purchased.

This type of statistical analysis enables the assessor to make much better use of available market data in determining value. Unfortunately, without the help of computers, many assessors cannot devote the time necessary to properly apply the market approach to value and are thus forced to rely almost completely upon the replacement cost, or summation, method. This method is not the most desirable even from an appraisal point of view, and it has also been shown that not only does it lead to unfair assessment practices, but it promotes deterioration of older neighborhoods and especially rental properties — accentuating urban blight. Regression can be integrated into the cost approach, thus materially enhancing performance of the replacement cost technique.

Multiple regression analysis can also go a long way toward generally improving the quality of new assessments. In a recent feasibility study conducted by the International Association of Assessing Officers to determine the benefits to be gained through the use of multiple regression, a mean based coefficient of dispersion was calcu-

lated to be 8%. Assessment professionals consider a coefficient of 5% or less to be the best that qualified appraisers can hope to achieve when mass valuing property, while values of 6% and up to 10% are considered acceptable when valuing property at 100% of fair market value.

In a test of the performance of revaluation companies in the State of Massachusetts, conducted by Commission consultant T. R. Smith, coefficients of dispersion were estimated for towns recently revalued, each by a different revaluation company. The company which performed the best was able to achieve a coefficient of dispersion of only 8%; the other 5 companies ranged as high as 14%, with an average of 12%. Thus one may conclude the performance of some multiple regression equations measures up quite well when compared with the recent performances of some mass appraisal companies. **This Commission feels a coefficient of dispersion within 10% using 100% valuation is acceptable.**

Use of Computers in Valuation

Multiple regression analysis is just part of a computer assisted valuation system. The basic arithmetic of the income valuation premise can easily be programmed so that new information on rental data and capitalization rates may be fed into the computer annually. This would provide the assessor a sound basis for valuation of income producing property.

Computer programs which calculate replacement cost are already in widespread use throughout the United States. Therefore, with the inclusion of multiple regression analysis of sales data, all three of the standard valuation techniques may be employed in a computerized valuation system. *The type of system which could be constructed utilizing the three techniques described above could feasibly lead to annual assessment of 80 to 85% of all property in the State of Connecticut.* The question remains, how would the remaining 15 to 20% be handled?

A major valuation problem existing today is how to appraise properties which do not normally sell on the open market. This problem will remain with us so long as we make use of a real property tax based upon ad valorem values. Hopefully, however, if much of the mundane calculations involved in the valuation of less complex properties can be shifted to computerized operations, our appraisers will be able to devote more time to these complex valuation problems, thus leading to more equitable assessments for all concerned. Still, it would probably be too much to expect full and complete annual valuations of these difficult properties. It would, however, be reasonable to expect a detailed general revaluation of such properties at a 5 year interval. *During the intervening years, these properties, primarily commercial and industrial, could be valued for annual assessment purposes through the use of an econometric updating computer model.* Value projection models could be constructed for commercial and industrial properties which would relate current market value to available economic data; for example, published statistics on wholesale and retail prices, income levels, and population densities.

Implications for Annual Assessment

By constructing a truly comprehensive valuation system, annual assessment of all real property in Connecticut is feasible. Implementation of a computerized annual assessment system would require an intensive effort by both the State and local levels of government within Connecticut. It would depend on sincere dedication by all parties concerned toward achieving annual assessment and the equitably administered property tax which would follow. This would appear the only way truly equalized values could be economically realized for use of assessment data in aid to local education. Implications of this premise underlie both the recent California and Texas court cases on the financing of local education.[12]

While there would be immediate gains and benefits derived from a commitment to develop a fully computerized assessment system throughout the State of Connecticut, it would be unrealistic to expect that the system could become fully operational on a statewide basis in less than 5 years. Immediate problems would be manpower staffing and training. While the total manpower requirements would not be exceedingly large, the type of personnel required is specialized and would probably have to be recruited from outside the State or else retrained from a related occupation. With the cutback in defense oriented industry throughout the United States, and specifically in Connecticut, there would appear to be a potentially good supply of labor available from this source. Possibly some of Connecticut's large technologi-

cally intensive industries could be induced to assist in the development of a statewide computerized assessment system.

Standardized Data

There also exists the problem of uniform recording of data throughout the State of Connecticut. A computer assisted valuation system would require all records and data reporting forms to be standardized in order to take maximum advantage of computer efficiencies. Recent data would have to be reported on all properties, thus probably requiring comprehensive revaluations for those towns which have outdated assessments or where the data provided by the last revaluation was insufficient. *The task of planning and implementing the computer assisted assessments would be a responsibility of the State Board of Assessment Supervision.*

Full Value Assessment

The concept of fractional assessment — i.e., assessing property at less than full market value — has evolved from two directions. During the 1930's, as a result of the major economic depression which prevailed at the time, it was common for properties to sell for only a fraction of their assessed value. There were actual instances where the tax bill was more than the current value of the property. These conditions were considered deplorable and intolerable; and, thus, many towns throughout the United States adopted a policy of hedging against further declines in market value by establishing assessments at some fraction of full market value. In some instances, this was done by custom; in other cases there were actual statutory changes. Assessors found this approach quite attractive and ultimately began to champion the concept of fractional assessment.

The principal requisite for an equitable property tax is often considered uniformity of assessment. There is little concern as to whether the assessments are at full cash value or some fraction thereof. Unfortunately, when one is dealing with fractional assessments, a 10% increase in an assessment founded upon a 40% fractional assessment base is much less noticeable to the property owner than a 10% change founded upon a full market assessment. In other words, it becomes much easier for the assessor to conceal his mistakes when dealing with fractional values.

It is the feeling of this Commission that the entire structure of government — state and local — has reached a very crucial point. The State needs greater participation by all taxpayers throughout the State in fiscal matters. If taxpayers are to participate in financial decisions regarding real property taxation, they must first be able to understand the basis of their property tax assessments. *An immediate step in this direction would be to establish assessments based upon 100% of market value with relative reduction in mill rate. These values should be published annually in a widely circulated journal or publication read by the majority of the residents within the town.* Published full value assessments would enable local residents to participate more actively in the real property tax assessment process. Moreover, it would establish a meaningful basis of comparing effective property tax values and burdens between towns. This would be a further step in the establishment of equalized values for use in distribution of funds from various State programs.

Annual assessments on a 100% uniform basis would have many specific advantages. First, all property owners would receive an annual notice of assessment. This would prevent a new building from having an assessment relatively greater than that of an older building valued during a base revaluation year, when the market value for the two properties was similar. Second, towns would gain a larger base grand list annually, which would tend to stabilize tax rates. Publication of the annual grand list would provide the public with a true picture of government spending compared to town wealth. With this information the public could vote for luxury amenities such as swimming pools and recreational structures based upon the realistic appraisal of the wealth of the community. At present these items are voted on with little knowledge of the ability of a town to afford them. In addition, full knowledge of a town's wealth can provide the data for planning and zoning agencies to plan the direction of growth desired.

Equalization of Assessments

Equalization of real property tax assessments is a problem between towns. The problem of lack of uniform assessments within a municipality has been discussed previously.[13] The problem of not knowing the effective assessment level when comparing assessment throughout the State is a different issue. In the past, while statewide knowledge of effective assessment levels would have been a helpful tool in property tax administration, such information was not essential for programs involving inter-governmental relations. Recent court cases, however, have made it abundantly clear that there will have to be more State participation in functions previously financed by local property taxation.[14]

It is time for Connecticut to prepare the machinery for greater State responsibility in equalizing educational opportunity throughout the State. With the ultimate development of computer assisted annual assessments, the job of equalization should be reduced. Nevertheless, even in those states where close to annual revaluation exists, there are still problems when it comes to distribution of school aid on the basis of assessed valuation. In California, the State Board of Equalization is continually fighting localized undervaluation as a means of acquiring more school aid. The desire to undervalue in relation to other towns results from the State's allocating revenue to the local communities on the basis of assessed value per capita, with those towns having a lower valuation per person getting a larger share of the assistance.

Suggested Equalization Reforms

The Advisory Commission on Intergovernmental Relations has set down a broad list of suggested property tax reforms. Those relating to the equalization of real property assessments are as follows:

1. A single, well-integrated administrative agency responsible for the State's entire share of assessment administration, provided adequately with professional personnel, appraisal and research facilities, and financial resources.
2. The regular conduct of scientific assessment ratio studies that disclose the levels of assessment of the major classes of property, and the regular publication of assessment ratios for the major classes of both State assessed and locally assessed property.
3. Adequate authority in accordance with the method established by law for the State agency to equalize the levels of assessment of State assessed and locally assessed property on the basis of the findings disclosed in the studies.
4. To provide the taxpayer with an effective remedy for inequality, creation of an independent and professionally qualified State Board of Tax Appeals, or tax court, with authority for the aggrieved taxpayers to introduce as evi lence the assessment ratios determined by the State agency through its studies.[15]

Establishing an Assessment Ratio

Attempts to comply with items 1, 3, and 4 are covered elsewhere in this Report; however, item number 2 does merit some discussion. There are two basic systems whereby one might establish assessment ratio. A third approach is sometimes used which combines features of these two basic systems. The least expensive and most extensively used approach is the comparison of actual market sales with assessments. This technique is extremely effective and accurate for the majority of real property which would be comprised of residential parcels, for these are the parcels which sell most frequently. There is some frequency of sales of smaller commercial and light industrial establishments, thus making sales ratios an effective equalization tool in those categories. It would be the responsibility of the State Board of Assessment Supervision to see that the sales truly represent a cross section of all properties. If all types of land use were not adequately represented, it would be necessary to supplement sales data with individual appraisals of randomly selected parcels not otherwise represented. Sample appraisals represent the second basic system of establishing assessment ratios.

If one were to rely entirely on a system of available sales, there would exist the problem of incomplete representation. However, relying entirely upon sample appraisals will materially increase the cost of administration. **Thus it is recommended that the State of Connecticut adopt a program which combines both techniques.**

Other Guidelines

The Advisory Commission on Intergovernmental Relations has suggested other guidelines which should be followed when establishing an assess-

ment ratio program. They have emphasized that the program should be under the direction of a professionally competent statistician. They have also suggested that parties to sales should be sent questionnaires concerning terms of sales, reliability of sales prices as evidence of market value, and exact nature of transferred properties (to determine if personal property was included in the transfer).[16]

Compilation of Data

In order to facilitate the completion of sales ratio studies, the State supervisors would develop a form to be filled out at the local level. Town clerks would complete a portion of this form when a deed is recorded. Data would include location, grantor, grantee, volume and page, recording date, instrument date, type of deed, revenue stamps, and sales price taken from affidavit. This form would be forwarded to the assessor's office for completion of information which would include land use classification, land details, building details, and assessment. The completed sale report forms would periodically be sent to the State computer processing center for analysis.

Before computer analysis was used to calculate assessment ratios, appraisal data would be submitted to the computer data center and the combination of sales and appraised values would be used to compile effective levels of assessment. *These ratios would be submitted to the Director of Local Assessment, whose function it would be to determine the percentage of adjustment, if any, required for all 169 municipalities to compile their assessments for each year at 100%.* These data could then be used by the appropriate State agency responsible for allocating State aid to local communities.

Tax-Exempt Property

In recent years, there has been little effort on the part of towns to maintain current values of tax-exempt real estate. When towns were permitted to include tax-exempt real estate for determining their bonding capacity, they did a reasonable job of valuing such property; however, since the legislature has changed the accounting method for purposes of local bonding, there has been no concerted effort to assess these properties.

In 1969 the total assessed value of tax-exempt property in Connecticut was $3,533,240,747.[17] The quadrennial report reveals a steady percentage increase from 1937 through 1961 except for 1957. After 1961, there was a sharp drop in the percentage of increase despite the fact that there was substantial new construction of exempt real estate during the 1960's. *This downward trend is not caused by reducing value, but rather by the lack of updating assessments on tax-exempt property.*

The following data is taken from the latest available publication and shows the changes in value from 1965 to 1969. State-owned property increased $81 million, city-owned $116 million, and privately-owned tax-exempt property $221 million.

There is no specific measure to use for ascertaining what the increased value of tax-exempt property would be if properly valued in relation to taxable property. As assessed in 1969, tax-exempt property represented 16.0% of the total combined values of exempt and taxable property. *All available evidence indicates this percentage would be much higher if all property were valued at the same level.* It should be noted that 7 towns have over $100 million of exempt properties; these same towns account for more than one-third the total of all exempt property in the State. Some years ago an effort was made to inventory and value all State-owned property, but this program was never completed.

All tax-exempt property should be assessed in the same manner as non-exempt property, with the single exception of streets, roads, highways, or other public ways. Although these assessments are not needed specifically for tax purposes, they are essential for the investigation of a variety of public policy issues ranging from the impact of tax-exempt property on the towns of the State to questions of land use for public purposes. The exception for streets and roads is necessary because there would be severe technical problems in assigning values.

Further, the Commission believes, this assessment will disclose some misuse of tax-exempt property in that the property is being used or occupied for non-exempt purposes. Returning this portion of the property to the town rolls may add an additional $10 million of grand list value.[18]

Preservation of Farms, Forests, and Open Space (Public Act 490)

Historically, the value of undeveloped land in Connecticut has been at a level well below fair market value, and in most cases no greater than its value for agricultural use. Before 1960, the practice of valuing undeveloped land below market value served a useful purpose because there was ample land available on the market. However, soon thereafter, raw land became a scarce resource and assessors began to increase assessed values in some instances. It became apparent that if legislation were not enacted much of our farm lands would disappear because of the inability of farmers to pay a property tax based upon fair market value. This condition would also apply to owners of forest lands.

In 1963, the Legislature passed into law Public Act 490, now Section 12-107a and related sections which provide a vehicle for local towns to designate use valuation for those lands which should remain open as forests and farms.

A detailed explanation of the intent of this Act is necessary to understand the impact which lower assessments would have on local grand lists. Section 12-107a of the General Statutes states "It is hereby declared (a) that it is in the public interest to encourage the preservation of farm land, forest land and open space land in order to maintain a readily available source of food and farm products close to the metropolitan areas of the state, to conserve the state's natural resources and to provide for the welfare and happiness of the inhabitants of the state."

Land qualifying under the farm category has been made abundantly clear by the various courts in Connecticut. *However, there has been no clear picture of the intent of this law with respect to forest land and open space land.*

The intent of the law was to preserve, through use value assessments, forests which have been or will be properly forested. Many lands now classified as forest land are not being forested and in fact are overgrown brush lands. The definition of forested lands is those which have been cleared of dense brush so that healthy trees will have an opportunity to grow into sturdy timber. To some extent this has not been followed in the classifying of forest lands.

It is the recommendation of this Commission that the State Forester develop regulations for the classification of forest land and that all existing certificates be reviewed to meet the new criteria of forest lands.

The open space section of the Act was intended to preserve all mountain ridges, stream beds, bogs and all lands deemed by local planning officials to be in the best interest of the public, to be preserved as open land, and if sufficient public funds were available, these same lands would be purchased by public agencies to insure their permanent open nature.

At least two towns in Connecticut have declared all undeveloped land in the town as open space. This action by the local planning agency is not following the intent of the law and is in fact detrimental to the best interests of the public, because it prevents land from being properly developed and relieves the individual property owner from a tax burden which is justifiably his.

No current inventory is available as to the number of acres of land which are presently classified as farm, forest, or open space. However, in 1963 when this bill was enacted into law, it was estimated that approximately one half the undeveloped land in the State would properly qualify for use tax value, and there is no evidence that this estimate should be changed.

Public Act 152: Conveyance Tax

The 1972 Legislature enacted into law Public Act 152, which was a conveyance tax upon properties classified as open space. This tax is based upon a percentage of the sale price beginning with the date of ownership. If property is sold in the first year of ownership, the conveyance tax is 10% of the sale price, 9% the second year, 8% the third year, and down to no tax at all after ten years.

The conveyance tax was intended to be a penalty for selling land having special assessment benefits because the primary interest of Public Act 490 was the preservation of undeveloped land.

It is recommended that this law be amended to have the year of classification rather than the

year of title ownership used in determining the holding period for purposes of assessing the conveyance tax. It is also recommended that the conveyance tax be held at 5%, thereby providing a degree of recapture of tax benefits realized. Property owners should have the right to withdraw their application within 12 months from the date of this amendment. Any owner who withdraws an application after the 12 month period would be subject to the same conveyance tax schedule as though in continuous application.

Undeveloped Land Assessments

The change in undeveloped land assessments during the past 20 years has been studied. In 1952 the average assessed value in the entire State was $80 per acre; there has been a steady increase in the unit price over the entire 20 year period since then with no indicated change in the pattern due to the passage of Public Act 490 in 1963. For instance, values more than doubled from 1952 to 1962, rising from $80 to $181 per acre. From 1962 to 1971 the unit price again more than doubled, from $181 to $480 per acre. The latter 9 year period included 8 years of special land assessments under Public Act 490.

These value changes do not reveal the whole picture of land values in the State because most assessors are still using values substantially below market values for undeveloped acreage. In 1971, approximately 2,100,000 acres of taxable undeveloped land in Connecticut had an average assessment per acre of less than $500 for a total assessed value of approximately $1 billion. *All these figures would be more than doubled if there were proper assessments on these lands. Based upon a State average mill rate of 50, a total in excess of $50 million can be realized from assessments on land at proper values.*

All lands not qualifying under the open space legislation should be valued on the basis of fair market value. It has been the practice of assessors to value all undeveloped land at or slightly above agricultural value. Present law requires the assessor to value all undeveloped land not classified under Public Act 490 at the same percentage of value as other taxable property. Sales studies in 6 towns reveal this law is not being followed, and the assessed value of undeveloped land is about one-third the percentage of value of other real estate.

Some examples of land disparity include one town with acreage 100% value at $250 per acre and sales of the same land at $800 per acre. Another town had industrial zoned land valued at $1,200 per acre and the sale price at $6,000 per acre. A review of the assessment and sales of acreage in most towns would show similar relations of the assessed value to the sale price.

This Commission recommends an immediate revaluation of all land in the State to bring their values in line with other real estate as required by present law. It is not believed this action would conflict with the intent of Public Act 490, because it would cover only half the acreage in the State, with the other half under the protection of Public Act 490.

Building Permit Fees

Each town is presently permitted to use its own schedule of fees for the issuance of building permits. There is no uniformity in the amount charged per $1000 of construction costs. In many instances, there is no fee charged at all. In addition, many towns permit builders and/or owners to submit cost estimates well below the actual cost. This practice obviously leads to unequal payment of fees for similar cost buildings.

The Commission recommends a minimum fee of $5.00 per $1000 of construction, payable at the time of issuance of the building permit. It further recommends that the State Building Inspector develop a fee schedule for various types and classes of buildings, which schedule will be used by the local inspector in charging fees. The Commission further recommends that penalties be developed for gross understatement of cost by the contractor. **The Commission believes that revenues to local government will be increased by $2.5 million with the application of the minimum fee schedule.**

Program Implementation Dates

Towns will be given two years to convert to 100% valuation with an annual computer revaluation of the grand list and to adopt the uniform assessment date and fiscal year. Towns will be given five years to comply with other provisions of the statewide uniform assessment act, as administered by the State Board of Assessment Supervision including personal inspection of all properties within the 5-year period. Any town having completed a general revaluation within the past 5 years need not begin the personal inspection on a rotation system until the sixth year after the effective date of their previous general revaluation.

FOOTNOTES TO PART C

1 See Connecticut Public Document No. 48, *Information Relative to the Assessment and Collection of Taxes* (1970).

2 *Ibid.*

3 See below, pp. 113 ff.

4 See below, pp. 101 ff.

5 See below, p. 105.

6 See below, p. 104.

7 Much of this information is derived from Advisory Commission on Intergovernmental Relations, *State-Local Finances: Significant Features and Suggested Legislation* (Washington, D.C.: Government Printing Office, 1972).

8 Pages 35-36.

9 The State of Massachusetts has been confronted by the necessity for similar procedural guidelines. Commission consultant T. R. Smith of the International Tax Program of the Harvard Law School is presently assisting in the development of manuals for use by Massachusetts assessors.

10 For discussion of market data, cost, and income approaches to valuation, see above, p. 101.

11 For a detailed discussion of this, see Part D of this Volume.

12 See Part B of this Volume, pp. 45-48.

13 See above, p. 96.

14 For a detailed discussion of this, see Part B of this Volume.

15 Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax* (Washington, D.C.: Government Printing Office, 1963), pp. 178-179.

16 *Ibid.*, p. 50. See also above, p. 107.

17 Connecticut Public Document No. 52, *Real Estate Exempted from Taxation* (1970).

18 See Table C-1 above, p. 95.

PART D

Municipal Fiscal Procedures

Introduction

The State of Connecticut is being called upon more and more to share in the payment of costs incurred by local governments. This is in part the result of towns and cities being faced with rising costs and providing more services while at the same time being limited to the property tax for their source of revenue. There is understandably a limit to which municipalities are willing to increase property taxes when the principal burden of such taxes falls on the home properties of their constituents.

The State has responded to this demand with substantially increased payments to local governments. During the period from 1961 through 1965, payments by the State to municipalities increased by approximately 50%; from 1965 through 1970 by 124%. The Federal government has also recognized the problem of local governments and additional funds will soon be forthcoming to towns and cities under Federal revenue-sharing plans. **More money than ever is being received and expended at the local level.**

Under these circumstances, it is not sufficient for the State alone to put its affairs in good financial order. It is imperative that local governments adhere to proper fiscal procedures which include appropriate review and constraints. The wide differences in the structures of municipalities in Connecticut make the adoption of sound fiscal procedures all the more important, but at the same time, all the more difficult.

The Commission has looked upon local governments as being the preferred level for decisions on spending and taxing. Individual participation is far more meaningful at this level. It is with the purpose of preserving the viability of local governments and at the same time holding them responsible and accountable for their actions that **the Commission recommends that the General Assembly adopt a Uniform Municipal Finance Act with provisions as set forth below.**

Recommendations

The Commission recommends:

1. *Approval at referendum would be required before an annual municipal budget resulting in an increase in the tax levy of more than 3% would become effective.*
2. *A special tax would be required to be levied by a town prior to taking any action which would cause a deficit in the budget for the current year.*
3. *The budget of a board of education would be required to be approved and administered in the same manner as the budget of other municipal departments.*
4. *Municipalities would be required to use a detailed uniform system of accounting to be promulgated by the State.*
5. *Each proposed municipal capital improvement would be required to be reviewed by a Capital Improvement Review Board to be established by each municipality to evaluate objectively each improvement from the standpoint of need, alternatives, adequacy, and cost.*
6. *Local governments would be required to develop personnel standards and encouraged to employ qualified persons in financial and administrative positions.*
7. *A properly staffed municipal finance division would be established in the office of the State Tax Commissioner to assist towns on fiscal matters and to supervise and enforce compliance with all regulations and laws relating to municipal finances.*
8. *The affirmative vote of the municipal legislative body approving all collective bargaining contracts would be required before the contract is binding upon the municipalities.*
9. *The maximum debt limit allowed municipalities would be changed in structure and lowered.*
10. *Municipal finance offices would be required to follow standards for investment of municipal funds to be established by the State.*

Discussion of Uniform Municipal Finance Act

A brief explanation of the reasons for each of the above provisions of the Uniform Municipal Finance Act follows:

Mandatory Referendum on Municipal Budget

The Commission proposes that adoption of the annual budget by the legislative body not become effective until approved at referendum in the event that the proposed new budget would result in an increase in the tax levy of more than 3% following adoption of the Commission recommendations made in Part C, Vol. II. Some municipal charters contain provisions whereby a specified percentage or number of voters may petition to force a referendum on the budget. The General Statutes provide a similar mechanism for forcing a referendum in towns operating under the town meeting form of government. Similarly, the General Statutes provide a method by which the residents of a regional school district may force a referendum on the budget of the regional school district. Usually, however, the difficulty of obtaining a sufficient number of signatures makes the right to petition for a referendum illusory. In many towns and cities there is no such right at all.

The Commission has noted the rapid increase in the amount of property taxes paid by most Connecticut residents. **At the level of municipal government, the taxpayer should, in most instances, be permitted to determine the nature and extent of municipal services inasmuch as he is the one who will be paying for them. Submission of the budget to referendum will result in a closer study of each budget item during the budget-making process because the department heads and municipal officials will normally seek to prepare a budget which either will not have to face the hazards of referendum or which can be well defended in the event of a referendum.** The requirement for a referendum is geared to a percentage increase in the amount of taxes to be levied in the municipality, not to the size of the budget itself. In other words, the budget might be increased by more than 3% but no referendum would be required if sources other than taxation were available to defray the increase. Such sources might include receipts from user chargers, benefit assessments, revenue-sharing payments, and other Federal or State grants.

The possibility of a referendum on the budget will require careful timing of the budget-making process. The Commission has recommended that all towns adopt the uniform fiscal year. Municipalities should be required to prepare and vote on the proposed budget in accordance with a uniform schedule. The Commission recommends that the General Assembly establish a date in early April for final action on the budget by the legislative body. If the budget as adopted will require an increase in property taxes by more than 3%, a notice of referendum on the budget should be published within three days after the vote of the legislative body and the referendum should be held within a resonable time after such publication. If the referendum rejects the budget, the legislative body should be given a reasonable period to prepare and vote on a revised budget and if the revised budget still requires an increase in property taxes of more than 3%, another referendum should be scheduled. If no budget has been approved prior to the commencement of the new fiscal year on July 1, the tax collector should be authorized to send out tax bills for the July 1 installment on the basis of a 3% increase in the tax levied for the previous year, using the new grand list. When the budget is finally approved and the amount of tax fixed, the tax collector can make the necessary adjustment in the bills for subsequent installments of taxes after July 1 or in the case of towns utilizing a single billing, a special bill must be provided.

Special Tax Levy

Once the budget for the current year has been established, **the Commission recommends that no contracts be entered into by any municipality calling for the expenditure of local funds not provided for in such budget, and no supplemental appropriation for any project or purpose other than a project to be financed from the sale of bonds be approved if such contract or supplemental appropriation would cause a deficit in the budget for the current year, unless a special tax is immediately levied to provide the necessary funds.** Similarly, if one or more items of expected revenue fails to materialize during the budget year and such failure will result in a deficit, a special tax to provide the necessary funds shall be levied. Such tax may be either (1) added to the tax for the current year and collected as part

thereof or (2) added to the tax to be levied for the next fiscal year. In both cases such additional tax shall be considered an increase in the tax levy for the next fiscal year for the purpose of determining the necessity for subjecting the budget for that year to referendum. There are presently restrictions on spending in excess of appropriations.[1] It is expected, however, that municipal officials will exercise even greater restraint in proposing additional programs or committing the municipality to increased expenditures during a fiscal year if they are required then and there to levy a special tax for such programs.

Board of Education Budget Approval

In most towns the education budget is larger than the budgets for all other municipal departments combined. It therefore is important that prudent financial control exercised over non-school spending should likewise be applied to education expenditures.

Under existing law, the boards of education have extensive responsibility and discretion in determining the size of the education budget and re-allocating funds from one budget item to another.[2]

The Commission's recommendations to subject education expenditures and collective bargaining agreements to the control of the municipality's normal budget making process will affect the traditional powers of boards of education in Connecticut.

The Connecticut Constitution guarantees free public schools in this State.[3] The General Assembly has delegated the responsibility of maintaining and managing public schools directly to boards of education.[4] School boards are legally agents of the State, but their actions can have important fiscal consequences for municipalities, for all local funds to support the public schools derive from municipal tax levies.

Generally, a municipal budget makes a single appropriation to the board of education, rather than itemized appropriations for specific purposes. The board determines how it will allocate its funds among various expenditure items, and has the power to transfer surplus funds from one expenditure item to another. Teacher salaries, which often comprise 80% of the education budget, are determined by collective bargaining agreements negotiated by the board of education which bind the municipality unless the legislative body acts to reject the agreement within 30 days.[5] Under present case law a municipality probably cannot refuse to appropriate sufficient funds to permit the board of education to carry out the board's statutory duties to manage and maintain the public school system in the municipality.

Thus, under present practice, boards of education have substantial power to determine the amount of local tax revenue which has to be raised for education expenditures. They also have almost complete discretion to determine how much will be allocated to each expenditure item. This power is unique, in contrast with all other municipal departments and agencies, but boards of education are unique because under the law they are agents of the State more than they are agents of their municipalities.

The Commission's recommendations will make boards of education more susceptible to control by their municipalities in regard to fiscal matters. Under the Commission's recommendations, the responsibility for managing and maintaining public schools will still be exercised by the boards of education, but the legislative bodies of municipalities will have greater responsibilities for determining the amount of funds which will be available to the boards to carry out their school policies and duties.

Uniform System of Accounts

The nature and quality of municipal accounting practices vary widely throughout the State. While the financial records and reports of some municipalities are maintained and prepared in accordance with generally accepted accounting principles, there is considerable deviation from such principles in many places. Municipalities presently submit a variety of reports to the Municipal Division of the State Tax Department, together with answers to a financial questionnaire, but there is no state-wide coordination of municipal accounting procedures. The present system suffers from lack of uniformity and standards of review, inadequate staffing of the Municipal Division, and unavailability of information or assistance for municipal financial officers. Because of the lack of uniformity in accounting practices, it is difficult if not impossible to make many useful statistical comparisons among municipalities.

The problem could be remedied in large part by **consistent administration of a uniform system of**

accounts, similar to that promulgated by the Public Utilities Commission for utility companies, whereby items of income and expense would be handled in identical fashion by all municipalities. To implement such a system, the Municipal Finance Division, which the Commission recommends in Section 7 below be established in the Office of the State Treasurer, should be authorized and directed to promulgate a uniform system of accounts to control all municipal financial and accounting procedures and to enforce said system.

Capital Improvement Review Boards

There are existing built-in fiscal checks and balances among town agencies such as the board of selectmen or council, board of finance, board of education, building committee and planning commission with respect to building proposals. These in most instances are sufficient to provide an objective evaluation of proposed capital improvements. Yet each of the above agencies is either substantially involved in numerous town matters or is concerned only with particular matters not related to the financial practicality of a particular capital improvement proposal. **For this reason there is need for a competent board within each municipality whose sole function will be to review the fiscal impact of each proposed capital improvement.**

Such a board would be expected to determine and to report (1) the extent to which the proposed improvement is needed; (2) what alternatives to proceeding with the proposed improvement exist; (3) the soundness of the proposal in terms of the need to be fulfilled; and (4) the likely consequences of the cost of the proposed improvement on the town's financial position and mill rate.

The report of the review board to the legislative body, which would be advisory only, would be disseminated to the residents of the town by news media and copies of the report would be available at the town hall. Such an evaluation of each proposed municipal improvement by the Capital Improvement Review Board should assure an objective appraisal of each proposal prior to final action being taken to proceed.

Financial and Administrative Personnel

In addition to uniform administrative practices in municipal finance, **the Commission believes that consideration should be given to the development of uniform personnel standards in municipal finance departments.** The standards could vary in relation to the size of the municipal budget or population. The larger municipalities would be required to conform to higher standards than would smaller municipalities. Hiring a better trained finance director and a larger staff for the finance department will be more expensive than continuing to shortchange this area, but the Commission believes that the expected improvements in performance will offset the increased cost.

Minimum standards for chief administrative officers of cities and towns should also be considered, but the Commission is limiting its recommendation to municipal finance departments at this time.

The Commission recognizes that personnel standards are more easily discussed than implemented. Academic credentials do not in themselves insure high performances in an individual, nor does a large number of employees in the finance department mean that the department will function well. But certain minimum standards in staffing and qualifications should be developed. **The Commission recommends that these standards be developed by the Division of Municipal Finance to be created at the State level.**

Municipal Finance Division at State Level

For too long towns have been left on their own to cope with increasingly complex finance problems. They have been forced to seek advice from whatever source was available, banks, bond counsel, and the like. The Municipal Division of the State Tax Department has been understaffed and unable to render the assistance needed.

It is imperative that a competent, well-staffed municipal finance division be established to perform the many needed functions now not being done. These include:

1. Promulgation of regulations providing for a uniform system of accounts to be maintained by all municipalities;

2. Close supervision of municipal accounts and enforcement of regulations pertaining to same;

3. Providing prompt and competent advice to municipalities on financial and procedural problems;

4. Establishing standards for investment of

town funds and providing advisory assistance in investing such funds;

5. Periodic inspection and review of finance operations in each municipality and submission of reports thereon;

6. Development of municipal financial procedures to include maximum use of data processing to increase efficiency;

7. Recommendations to governor and General Assembly for legislation needed to improve municipal finances.

8. Development of standards and qualifications for municipal finance personnel.

Accordingly, the Commission recommends that a Municipal Finance Division be established in the Office of the State Treasurer to carry out the above duties.

Collective Bargaining Agreements

The salaries of teachers and municipal employees comprise a substantial portion of a municipality's budget, and an increasing amount of such salaries is established through collective bargaining agreements. Since such agreements can have a significant effect on the size of a municipality's budget, **the Commission recommends that no collective bargaining agreement be binding on a municipality until it has been affirmatively approved by the municipality's legislative body.**

Collective bargaining was recognized by statute in Connecticut in 1965.[6] Subsequent amendments have provided that a collective bargaining agreement shall be binding on the municipality if the legislative body fails to reject the agreement within a certain number of days.[7] These provisions short-circuit the normal budget process which permits scrutiny of proposed appropriations by the board of finance or similar agency in most municipalities.[8] They may also circumvent other statutory provisions which prohibit the execution of contracts when funds have not been appropriated to pay the municipality's obligations under such contracts,[9] particularly where collective bargaining agreements become effective before the annual budget has been adopted. All other contractual obligations of a municipality require the legislative body to appropriate funds or to act affirmatively to approve the contract before the contract is binding. **The Commission's recommendation will ensure that proper consideration is given to the cost of such agreements to the municipality and will provide for uniform treatment of all contractual obligations of the municipality.**

Maximum Debt Limit

A municipality is permitted by the General Statutes (Section 7-374) to issue bonds for various types of capital projects up to the following multiples of receipts from taxation for the most recent fiscal year: urban renewal projects—3¼ times; sewers—3¾ times; school building projects—4½ times; all other borrowing—2¼ times. In no event may the total indebtedness exceed 7 times such tax receipts. In calculating outstanding indebtedness, the municipality may subtract the value of assets in its sinking funds, and exclude certain utility borrowing and indebtedness issued in anticipation of taxes, public improvement assessments, and proceeds from any State or Federal grant for which a written commitment or contract has issued. While indebtedness includes indebtedness of municipal entities coterminus with and within the town, such as fire districts or separate taxing districts, it does not include the debt of municipal entities of which the town is a constituent part, such as regional school districts or certain public service districts.

The tax receipts formula outlined above is awkward to use and does not truly relate the financial condition of a municipality to its needs or ability to pay. Furthermore, most municipalities are so far below the permissible debt limit that it does not serve as a realistic curb on municipal borrowing.

The Commission therefore recommends that the debt limit statute be changed so as to establish a limitation for all municipal bonded indebtedness at an amount not to exceed five times the most recent year's total tax levy or three percent of the full value of the taxable property in the town, whichever is greater. School district borrowing and other borrowing by multi-town agencies which pledge the credit of constituent municipalities should be included in determining bonded indebtedness. The exclusions would remain as they presently are. Total permissible debt would then vary as a function of the inherent wealth of a municipality or its recent history of taxing.

In order to accommodate municipalities which are at or near the maximum permissible limits, and to provide flexibility in situations where emergency or critical need dictates additional borrowing, the Commission recommends that a

municipality wishing to issue debt in excess of the above limits could do so upon approval by a two-thirds majority of the votes cast at a referendum.

Standards of Investment for Town Funds

The Commission has recommended that all municipalities adopt the uniform fiscal year (July 1 to June 30) not later than June 30, 1974. Municipalities on the uniform fiscal year have the advantage of receiving a large part of the year's tax levy during the first month of the fiscal year. These tax receipts may be invested for a temporary period until expended. The same is true to a lesser degree on subsequent tax payment installment dates.

The ability to invest such tax receipts is an asset of local government which is largely unavailable to municipalities not on the uniform fiscal year. Further, municipalities not on the uniform fiscal year must usually borrow money in anticipation of tax receipts and the interest expense on such borrowing is an additional drain on the municipal budget. Once all municipalities are on the uniform fiscal year, the only tax anticipation borrowing permitted will be short-term borrowings in anticipation of the receipt from the proceeds of the special tax levied during the course of a fiscal year. No other borrowing in anticipation of taxes should be needed or permitted.

Having all towns on the uniform fiscal year increases the need for prudent investment of town funds. **Uniform standards should be adopted which will limit the amount of funds which the municipalities keep in non-interest bearing accounts and professional advice should be available to municipal treasurers in maximizing the returns obtained on municipal funds,** including tax receipts, revenue-sharing payments and State and Federal grants. **The division of municipal finance to be established at the State level should be available to provide assistance to municipalities seeking investment advice and to promulgate standards to be followed by municipalities in this area.**

Conclusion

The specter of ever increasing taxes demands prompt action in curbing excessive governmental spending at all levels. The enactment of the Uniform Municipal Finance Act recommended by the Commission should help control spending on the municipal level. It should result in increased efficiency at reduced costs. It should restore greater financial control to those upon whom the tax burden falls.

FOOTNOTES TO PART D

1 Conn. Gen. Stat. Secs. 4-100, 7-348, 7-349.

2 Conn. Gen. Stat., Secs. 10-220, 10-222 and 10-4a.

3 Connecticut Constitution of 1965, Article Eight, Section One.

4 Conn. Gen. Stat., Sec. 10-220.

5 See generally Pope and Vause, "Metamorphosis in Public School Management," 2 *Conn. L. Rev.* 285 (Winter, 1969-70).

6 See now Conn. Gen. Stat. Secs. 7-467 to 477 and Secs. 10-153b to 153f.

7 Conn. Gen. Stat. Sec. 7-474 and Sec. 10-153d. In towns with town meetings the legislative body does not have this power with regard to agreements concerning non-school personnel. Also, certain types of collective bargaining agreements are binding without any legislative approval under Conn. Gen. Stat. Sec. 7-474d.

8 Conn. Gen. Stat. Sec. 7-344 and Sec. 10-222.

9 Conn. Gen. Stat. Sec. 7-348 and Sec. 10-220.

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